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3/26

THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

**Date Issued:** March 23, 2007

**IBA Report Number:** 07-39

**Audit Committee Agenda Date:** March 26, 2007

**Item Number:** 4

**City Council Agenda Date:** March 27, 2007

**Item Number:** ~~334~~ 205

**Subject:** City Council Mid-Year Request for Independent Legislative Audit Analyst and Audit Committee Consultant

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On several occasions over the past several weeks, at both Audit Committee and Budget and Finance Committee, the need for establishing a senior level audit analyst/advisor for the City Council has been discussed. During these discussions, this position has been described as separate from, and in addition to, the traditional Committee Consultant position which provides legislative and administrative support directly to the Chair of the Committee. During the Council discussion of mid-year budget adjustments on Monday, March 19, 2007, the Council requested the Mayor's Office to identify funding for the remainder of the year to enable the Council to establish these two positions as soon as practicable.

**AUDIT COMMITTEE CONSULTANT**

Estimated Salary for May/June 2007 \$12,500

Estimate Salary for FY 2008 \$75,000

On January 29, 2007, the Audit Committee unanimously accepted Councilmember Faulconer's recommendation to refer this item for funding to the Budget and Finance Committee in February for discussion with other mid-year budget adjustments. This Committee action was based on the attached January 29, 2007 memo from Committee Chair Faulconer, "Audit Committee Consultant Qualifications."

At the February 28, 2007 Budget Committee meeting, the CFO noted that specific funding adjustments were not identified for this position as it was contemplated that salary savings from other position vacancies could be used to fund this position for the remainder of the fiscal year.



As noted earlier, this position that will provide legislative and administrative support directly to the Chair of the Committee as is the case with other Council committees. This position also serves a valuable liaison role regarding Audit Committee agenda items and other matters between the Chair of the Audit Committee, other City Council offices, the Mayor's Office, the Independent Budget Analyst, City departments, interested citizens and external agencies.

INDEPENDENT LEGISLATIVE AUDIT ANALYST  
Estimated Salary for May/June 2007 \$25,000  
Estimated Salary for FY 2008 \$150,000

This senior level position is being proposed in response to discussions and requests by members of the Audit Committee and the recent Council request to the Mayor's Office to identify funding as part of the mid-year budget adjustments for a senior level position to provide audit expertise to the members of the Audit Committee and the Council as a whole. With increasing focus on the City's internal audit responsibilities and associated legislative matters, this legislative support is critical. The IBA Office has expended innumerable hours on this important activity since completion of the Kroll report and this work is only expected to accelerate.

While we feel we have provided strong support to the Council thus far, the Audit Committee and the City Council are in need of specific governmental auditing expertise and advice. Our Office could significantly benefit from this expertise as well. Since the duties of this position align well with the function of the Office of the IBA, it could be easily incorporated into this existing office if the Council desires, and report to the IBA. In addition to the routine work of the Audit Committee, numerous efforts are under way or pending where this expertise is required including:

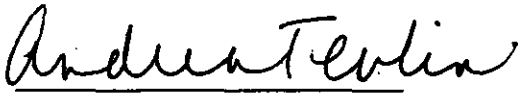
- Assisting the Audit Committee and City Council with developing ballot language for the City Charter to achieve permanent Audit Committee and Auditor independence;
- Providing research and developing support documents for the Council and the Mayor's Charter Commission regarding Auditor and Audit Committee Charter matters;
- Assisting and advising the Council regarding recruitment and selection of a new Internal Auditor;
- Assisting and advising the Council regarding the establishment of the City's internal auditing function;
- Reviewing audit results and providing independent advice to the Audit Committee and City Council regarding these audits;
- Coordinating and advising the Audit Committee on the retention of outside auditors;
- Analyzing all audit-related legislative actions on the Council docket and advising the Council on these matters;
- Evaluating City procedures and fiscal practices for efficiency and effectiveness;

- Provide ongoing analysis and independent advice for Council regarding implementation of the Kroll remediations;
- Ongoing coordination and facilitation with City's SEC Independent Consultant on behalf of the City Council.

It is recommended that the person identified for this position have the following education and experience:

- Bachelor's Degree in accounting, finance, public administration
- Master's Degree highly desirable
- Professional certification such as a CPA or CIA
- Minimum seven years experience in local government internal auditing in a large, complex, urban environment, or with a County or State government
- Significant experience with governmental accounting standards, government generally accepted auditing standards and preparation of government annual financial statements and audits
- Strong verbal and written communication skills
- Demonstrated ability to work effectively with elected officials, city departments, external agencies and citizens

This memo is provided for Council consideration regarding staff support associated with the Audit Committee and all legislative audit-related activities. Depending upon the wishes of the Council, our Office is prepared to follow up immediately.



Andrea Tevlin  
Independent Budget Analyst

Attachment



#205  
3/26/07

THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: March 14, 2007 REPORT NO: 07-058

ATTENTION: Budget and Finance Committee  
Agenda of February 28, 2007

SUBJECT: Fiscal Year 2007 Mid-Year Budget Adjustments

REFERENCE: Fiscal Year 2007 Mid-Year General Fund Expenditure Monitoring Report  
Fiscal Year 2007 Mid-Year General Fund Revenue Monitoring Report,  
07-031  
Charter Section 39 Report: Period Six of Fiscal Year 2007, 07-032  
Fiscal Year 2007 Period 1-4 Budget Monitoring Update Report, 06-191  
Fiscal Year 2007 Period 1-2 Budget Monitoring Report, 06-148  
Information Technology Business Process Reengineering (BPR), 06-140  
Human Resources/Personnel Business Process Reengineering (BPR), 06-  
139  
Contracting Business Process Reengineering (BPR), 06-137

REQUESTED ACTION:

1. Accept the Report from the Mayor on Fiscal Year 2007 Mid-Year Budget Adjustments and recommend City Council approval of requested budget adjustments.

STAFF RECOMMENDATION:

1. Accept the Report from the Mayor on Fiscal Year 2007 Mid-Year Budget Adjustments and recommend City Council approval of requested budget adjustments.

SUMMARY:

**INTRODUCTION**

The Mid-Year Budget Adjustments Report for fiscal year 2007 requests changes to the fiscal year 2007 budget for these purposes:

- 1) Modify departmental expenditure and revenue budgets based on year-end projections and on new needs for expenditures not anticipated in the fiscal year 2007 budget. See Attachment I-A: Budget Increases/(Decreases).
- 2) Adjust the fiscal year 2007 budget to correct errors or make structural changes that were identified after the final fiscal year 2007 budget was approved. Several of these changes were previously identified in the Fiscal Year 2007 Period 1-2 Budget Monitoring Report,

06-148, presented to the Budget and Finance Committee in October 2006. See Attachment I-B: Budget Corrections.

- 3) Implement the approved actions for Business Process Reengineering (BPR). See Attachment I-C: Business Process Reengineering Budget Adjustments.
- 4) Increase the General Fund revenue budget to account for projected over budget revenues. Please refer to the Fiscal Year 2007 Mid-Year General Fund Revenue Monitoring Report, 07-031, presented to the Budget and Finance Committee in January 2007, for a discussion of revenue projections.
- 5) Reallocate salary appropriations to a reserve account to ensure that General Fund salary savings are available at year-end.
- 6) Repay the Environmental Services Department enterprise funds for activities that were inappropriately budgeted and charged to those funds, based on the legal requirements of the funds as reported by the Office of the City Attorney.
- 7) Return funds to the Water and Metropolitan Wastewater Departments for expenses charged in fiscal year 2003 by General Fund departments, based on the findings of the audit conducted by Mayer Hoffman McCann.

## **BUDGET ADJUSTMENTS OVERVIEW**

The total bottom line impact to the General Fund from all requested changes can be summarized as follows: 1) a net reduction of 10.00 full-time equivalent (FTE) positions; 2) a net increase of \$11.6 million in expenditure appropriations; and 3) a net increase of \$6.2 million in the General Fund revenue budget. Please refer to Table 1, Summary of General Fund Budget Adjustments, for an itemization of changes by the categories listed above. The major budget adjustments are highlighted in the following paragraphs.

### **General Fund Adjustments**

The requested \$6.2 million increase in revenue budget will partially offset the \$11.6 million in requested new expenditure appropriations. A \$5.4 million gap remains between the projected revenue surplus to be appropriated and the additional expenditure appropriations requested in this report. An allocation of \$5.4 million of General Fund reserves is requested to balance all General Fund budget adjustments as outlined in Table 1. As of the publication date of this report, the General Fund reserves balance is \$36.2 million. The requested allocation of General Fund reserves will reduce this balance to \$30.8 million; however, staff requests that anticipated salary savings of \$5.1 million be set aside in a salary reserve account that will be allocated to the General Fund reserves at year-end along with General Fund savings remaining in departments. The year-end contribution to the reserves from surplus projected revenues and expenditure savings (including the salary savings to be set aside in reserves) is currently projected at \$12.2 million. This anticipated year-end reserves contribution will be in addition to the \$7.2 million reserve contribution budgeted as part of the fiscal year 2007 budget.

**Summary of General Fund Budget Adjustments**

**Table 1**

Description	FTE Increase/(Decrease)	Expenditure Increase/(Decrease)	Revenue Increase/(Decrease)
<b>Budget Adjustments</b>			
A Budget Increases/(Decreases)	0.00	\$ 12,461,000	\$ (3,742,000)
B Budget Corrections	(7.00)	(3,853,046)	(605,487)
C Business Process Reengineering	(3.00)	15,391	15,391
D Major General Fund Revenues	0.00	-	10,524,000
	<u>(10.00)</u>	<u>\$ 8,623,345</u>	<u>\$ 6,191,904</u>
<b>E Reallocation of Salary Appropriations to Reserve Account</b>			
City Attorney	0.00	\$ (613,000)	\$ -
Park and Recreation	0.00	(644,000)	-
Police	0.00	(3,822,000)	-
Citywide Salary Reserve Account	0.00	5,079,000	-
TOTAL	<u>0.00</u>	<u>\$ -</u>	<u>\$ -</u>
<b>F Repayment to Recycling and Refuse Disposal Funds</b>			
Environmental Services	0.00	\$ 1,955,000	\$ -
<b>G Repayment to Sewer and Water Funds</b>			
Various General Fund Departments	0.00	\$ 1,064,503	\$ -
<b>Total General Fund Budget Adjustments</b>			
	<u>(10.00)</u>	<u>\$ 11,642,848</u>	<u>\$ 6,191,904</u>

**Non General Fund Adjustments**

Budget adjustments are requested for other funds for the following purposes: A) provide funding for new needs and projects not anticipated in the fiscal year 2007 budget; B) correct errors or make structural changes that were identified after the fiscal year 2007 budget was approved; and C) implement BPR results. The requested changes to each fund's appropriations are shown in Table 2, Summary of Citywide Budget Adjustments. The requested adjustments result in the total citywide budget reduction of 16.00 FTE, and increases of \$21.9 million in expenditure appropriations and \$13.4 million in revenue budgets. Adjustments to other funds do not require additional appropriations from reserves.

## Summary of Citywide Budget Adjustments

Table 2

Description	FTE Increase/(Decrease)	Expenditure Increase/(Decrease)	Revenue Increase/(Decrease)
<b>Non-General Funds</b>			
Central Stores Internal Service Fund	0.00	\$ 7,000,000	\$ 6,400,000
Development Services Enterprise Fund	(1.00)	(120,314)	-
E&CP-Water/Wastewater Fund	1.00	60,544	60,544
Information Technology Fund	2.00	229,444	-
Refuse Disposal Funds	(1.00)	(115,320)	-
Risk Management Administration Fund	0.00	3,094,563	-
Sewer Funds	(5.00)	(409,818)	-
Water Department Fund	(2.00)	(201,144)	-
Zoological Exhibits Fund	0.00	746,698	746,698
<b>Total Non-General Fund Adjustments</b>	<b>(6.00)</b>	<b>\$ 10,284,653</b>	<b>\$ 7,207,242</b>
<b>Total General Fund Adjustments</b>	<b>(10.00)</b>	<b>\$ 11,642,848</b>	<b>\$ 6,191,904</b>
<b>Total Citywide Budget Adjustments</b>	<b>(16.00)</b>	<b>\$ 21,927,501</b>	<b>\$ 13,399,146</b>

### DETAIL OF BUDGET ADJUSTMENTS

#### Budget Increases/(Decreases) Table 1 (A)

In order to fund departmental needs or projects that were not anticipated in the fiscal year 2007 budget, additional expenditure appropriations are requested. Conversely, adjustments are also requested to reduce revenue budgets where necessary. These adjustments will result in a total impact to the General Fund of \$12.5 million in increased expenditure appropriations and \$3.7 million in reduced revenue budgets. See line item A in Table 1, Summary of General Fund Budget Adjustments. Budget adjustments are also requested for the Central Stores Internal Service Fund and Zoological Exhibits Fund. Refer to Attachment I-A: Budget Increases/(Decreases) for a listing of these adjustments.

#### City Attorney

An expenditure appropriation increase of \$796,000 is requested to mitigate the increased spending on contracts for temporary employees, court and litigation related activities, and additional unbudgeted expenses for cell phone and data processing services. Projected salary savings of \$613,000 will be transferred to a salary reserve account. The City Attorney's Office projects a higher NPE shortfall this year of \$1.1 million, with approximately \$300,000 attributable to a possible over expenditure in fringe expense. Staff do not recommend additional appropriations for fringe expenses at this time and will continue to monitor expenditures for a possible third quarter adjustment.

A revenue budget reduction of \$2.5 million is requested due to the change in billing practices for SLAs and reduced legal work for the Water and Metropolitan Wastewater Departments. The

SLA revenue is expected to be \$3.8 million below budget this year but is offset by litigation awards revenue that has surpassed the budget of \$1.6 million by \$1.3 million.

#### **City Planning and Community Investment**

An expenditure appropriation increase of \$203,000 is requested to reconfigure office space and to complete the General Plan. The \$125,000 needed to reconfigure office space will allow Economic Development Division staff to move from leased office space to a city-owned building. The move is estimated to cost \$165,000 and to save \$165,000 annually or \$990,000 for the term of the current lease. In order to complete the General Plan, additional appropriations of \$78,000 are needed for consulting contracts.

#### **Citywide Program Expenditures**

An expenditure appropriation reduction of \$4.1 million is requested primarily due to projected surplus TOT revenues, eliminating the need for a General Fund subsidy to Special Promotional Programs. TOT revenues to Special Promotional Programs are projected to exceed budget by over \$5 million, removing the need for the \$4.7 million allocation from the General Fund.

#### **Financial Management**

An expenditure appropriation increase of \$15,000 is requested for additional departmental training. Recognizing the importance of a well trained staff and in order to comply with the Kroll Report's remediation recommendations, the Department of Finance has started a thorough evaluation of its future training needs. The Financial Management Department had no training budget in fiscal year 2007 and does not project sufficient NPE savings to fund additional training.

#### **Park and Recreation**

An expenditure appropriation increase of \$644,000 is requested for the following activities: waste removal services, downtown restroom maintenance, new facilities, water and sewer costs, and the annual dues for the San Dieguito River Valley Regional Open Space Park Joint Powers Authority (JPA). Approximately \$270,000 of the appropriation adjustment is needed for the Park and Recreation Department to assume responsibility for the JPA dues from the Water Department. The Water Department does not derive any direct benefit from participation in the JPA. The JPA provides a regional open space corridor benefit to the City of San Diego and the dues are more appropriately funded through the Park and Recreation Department. Dues for the first two quarters of fiscal year 2007 were paid by the Water Department and will be refunded by the Park and Recreation Department. Meanwhile, salary savings of \$1.3 million are projected in this department; of this amount, \$644,000 will be transferred to a salary reserve account.

#### **Personnel**

A revenue budget reduction of \$639,000 is requested due to cancellations of SLAs. Personnel is a central service function and expenditures no longer being charged through SLAs will be recovered in General Governmental Services Billing charges.

#### **Police**

An expenditure appropriation increase of \$3.8 million is requested for projected over budget expenditures in data processing, energy, and fringe. Of this amount, \$1.9 million is needed for



under budgeted data processing charges and \$1.1 million for under budgeted energy charges. Additionally, an increased appropriation of \$800,000 is required for projected fringe costs. Salary savings of \$4.2 million are projected in this department; \$3.8 million will be transferred to a salary reserve account.

#### **San Diego Fire-Rescue**

An expenditure appropriation increase of \$3.6 million is requested for over budget personnel expenditures, higher than anticipated energy and fuel expenses, and funding for the Urban Area Security Initiative (UASI). Salary and fringe expenditures are projected to be \$2.0 million over budget due to a vacancy rate that is lower than the budgeted vacancy factor. Expenditures related to the UASI are \$1.2 million over budget. These expenses will be reimbursed by the UASI grant, offsetting the revenue loss due to reduced services to the Emergency Medical Services program. An additional \$400,000 is requested for over budget supplies and services and energy/utility expenses.

#### **Special Projects**

A revenue budget reduction of \$570,000 is requested due to projected shortfalls in major gifts and planned giving, corporate partnerships, and other special projects revenues. This additional revenue has been budgeted in the past and not realized.

#### **Tax and Revenue Anticipation Notes**

An expenditure appropriation increase of \$4 million is requested due to increased borrowing costs.

#### **Public Liability Fund (Citywide Program Expenditures)**

An expenditure appropriation increase of \$3.5 million is requested to contribute additional funds to the Public Liability Fund in order to pay for projected costs that may be incurred throughout the remainder of fiscal year 2007. This projection does not consider any funding requirements for non-claims related expenditures. This request will increase the Citywide Program Expenditures Department's Public Liability Claims appropriations by \$3.5 million and the Public Liability Fund balance by \$3.5 million.

#### **Central Stores Internal Service Fund**

An expenditure appropriation increase of \$7.0 million and a revenue budget increase of \$6.4 million are requested to fully fund inventory purchases and sales. This expenditure category and associated revenues were not budgeted sufficiently in prior years and were adjusted administratively.

#### **Zoological Exhibits Fund**

An expenditure appropriation increase of \$747,000 and a revenue budget increase of \$747,000 are requested in order for the Zoological Exhibits Fund budget to correspond to the amount in the fiscal year 2007 Tax Rate Ordinance. The Tax Rate Ordinance sets the Zoological Exhibits budget based on a tax levy as mandated by City Charter. The fiscal year 2007 Tax Rate Ordinance was approved by the City Council on August 1, 2006, after adoption of the fiscal year 2007 Appropriation Ordinance. Therefore, it is necessary to adjust the Zoological Exhibits budget to reflect the tax requirements as specified in the fiscal year 2007 Tax Rate Ordinance.

### **Budget Corrections Table 1. (B)**

Budget corrections consist primarily of transfers and restructuring which are not properly reflected in the fiscal year 2007 budget. To make these corrections and to execute structural changes, positions, expenditures, and revenue are requested to be transferred from one General Fund department to another. In all cases these transfers affect the department's bottom line budget appropriation, thus requiring Council approval. In some cases, these corrections result in a reduction of positions, expenditures, or revenues. The total impact to the General Fund is a reduction of 7.00 FTE, a reduction in expenditure appropriations of \$3.9 million, and a reduction in revenue budgets of over \$605,000. See line item B in Table 1, Summary of General Fund Budget Adjustments. Budget corrections are also requested for the Information Technology Fund and Risk Management Administration Fund. Refer to Attachment I-B: Budget Corrections for a listing of these adjustments.

#### **Business and Grant Administration/Community and Legislative Services**

The transfer of 2.00 Council Representative II positions and related NPE from the Business and Grant Administration Department to the Community and Legislative Services Department is requested in order to correct the fiscal year 2007 budget. This action will move 2.00 FTE and \$200,000 of expenditure appropriations with no net impact to the General Fund.

#### **Business and Grant Administration/Mayor**

The transfer of \$16,000 of expenditure appropriations from the Business and Grant Administration Department to the Mayor's Department is requested in order to fund travel expenses that were not properly budgeted. This action will have no net impact on the General Fund.

#### **Business and Grant Administration, Business Office, Chief Operating Officer, Customer Services, and Mayor/Community and Legislative Services**

The transfer of \$11,000 of expenditure appropriations from the above mentioned departments to the Community and Legislative Services Department is requested in order to fund web support services that were inaccurately distributed among several departments. This action will have no net impact on the General Fund.

#### **Customer Services/Community and Legislative Services**

The transfer of 3.00 Council Representative II positions and related NPE from the Customer Services Department to the Community and Legislative Services Department is requested in order to correct the fiscal year 2007 budget. This action will move 3.00 FTE and \$200,000 of expenditure appropriations with no net impact to the General Fund.

#### **Department of Finance/Financial Management**

The transfer of 1.00 Financial Management Director from the Department of Finance to the Financial Management Department is requested in order to properly reflect the organizational structure of the Financial Management Department. This action will move 1.00 FTE and \$201,000 of expenditure appropriations with no net impact to the General Fund.

### **Financial Management**

The reduction of 2.00 Supervising Management Analysts and associated revenue is requested. The elimination of one position and associated revenue is due to the discontinuation of the Optimization Program, while removal of the second position is due to the restructuring of the Financial Management Department. This action will remove 2.00 FTE, \$230,000 of expenditure appropriations, and \$125,000 of revenue budget from the General Fund.

### **Financial Management Department/Information Technology Fund**

The transfer of 2.00 Information Systems Analyst IV positions from the Financial Management Department to the Information Technology Fund is requested in order to reflect a structural change that occurred after adoption of the fiscal year 2007 budget. This action will have a net reduction of 2.00 FTE and \$229,000 of expenditure appropriations to the General Fund and a corresponding net increase of FTE and expenditure appropriations to the Information Technology Fund.

### **Engineering and Capital Projects/General Services**

The transfer of 1.00 Traffic Engineer plus \$238,000 of NPE appropriations from the Engineering and Capital Projects Department to the General Services Department is requested in order to support additional facilities work. The traffic engineer will lead the Facilities Work Control Center and the NPE will fund a facility condition assessment of police, fire and lifeguard facilities. This action will move 1.00 FTE and \$348,000 of expenditure appropriations with no net impact to the General Fund.

### **General Services/City Treasurer and Police**

In order to reflect the restructure of the Parking Management Division that occurred after completion of the fiscal year 2007 budget, positions, expenditures, and revenues are requested to be transferred from the General Services Department to the City Treasurer and Police Departments. Parking enforcement was identified as a non-core function for Public Works and the operation was divided between the Police Department (enforcement) and the City Treasurer Department (collections). The Parking Management Division has 100.00 FTE, a total expenditure budget of \$9.6 million and a revenue budget of \$25.7 million. An additional position that was incorrectly budgeted in the Street Division of the General Services Department is also being transferred. This action will move 31.00 FTE, \$3.9 million of expenditure appropriations, and \$7.3 million of revenue budget to the City Treasurer Department and 70.00 FTE, \$5.8 million of expenditure appropriations and \$18.4 million of revenue budget to the Police Department. There is no net impact to the General Fund.

### **MWWD – Storm Water Pollution Prevention/General Services**

In order to reflect the restructure of the Storm Water Pollution Prevention Division that occurred after completion of the fiscal year 2007 budget, positions, expenditures, and revenues are requested to be transferred from the Metropolitan Wastewater Department to the General Services Department. This action will move 25.34 FTE, \$13.6 million of expenditure appropriations, and \$472,000 of revenue budget with no net impact to the General Fund.

### **Special Projects/Department of Finance**

The transfer of 1.00 Director of Major Gifts, 1.00 Program Manager, and related NPE from the Special Projects Department to the Department of Finance is requested in order to correct the fiscal year 2007 budget. This action will move 2.00 FTE and \$371,000 of expenditure appropriations with no net impact to the General Fund.

### **Human Resources/Risk Management Administration Fund**

The transfer of \$3.1 million of expenditure appropriations from the Human Resources Department to the Risk Management Administration Fund is requested in order to correct the fiscal year 2007 budget and properly reflect the responsibility for employee benefits and safety activities. The revenue associated with these activities already exists in the Risk Management Administration Fund. This action will have a net reduction of \$3.1 million of expenditure appropriations to the General Fund and a net increase of \$3.1 million of expenditure appropriations to the Risk Management Administration Fund.

### **City Auditor and Comptroller**

The reduction of 1.00 Principal Accountant, 1.00 Accountant III, 1.00 Payroll Audit Specialist, associated NPE, and associated revenue from the City Auditor and Comptroller Department is requested in order to correct the fiscal year 2007 budget. These positions and related NPE were transferred to the City Retirement Department. The positions were included in the City Retirement Department's fiscal year 2007 budget but not removed from the City Auditor and Comptroller Department's budget. This action will remove 3.00 FTE, \$299,000 of expenditure appropriations, and \$299,000 of revenue budget from the General Fund.

### **Community and Legislative Services**

The reduction of \$181,000 of revenue budget is requested due to cancellation of SLAs with enterprise fund departments and lower than anticipated City TV 24 revenue. This action will remove \$181,000 of budgeted revenue from the General Fund.

### **Business Process Reengineering Table 1(C)**

Three BPR efforts were completed and approved by Council at the time of this analysis: Contracting (Resolution Number R-301948), Information Technology (Resolution Number R-302005), and Human Resources/Personnel (Resolution Number R-302004). Budget adjustments are requested to complete implementation of the BPR results. The total impact to the General Fund is a reduction of 3.00 FTE, an increase in expenditure appropriations of over \$15,000, and an increase in revenue budgets of over \$15,000. See line item C in Table 1, Summary of General Fund Budget Adjustments. Budget adjustments are also requested for the Development Services Enterprise, E&CP – Water/Wastewater, Refuse Disposal, Sewer, and Water Department Funds in order to implement BPRs. Refer to Attachment I-C: Business Process Reengineering Budget Adjustments for a listing of these adjustments.

These budget adjustments reflect a pro-ration of the amounts presented in each of the BPR reports due to mid-year implementation. These BPR budget adjustments do not demonstrate budgetary savings to the General Fund in fiscal year 2007. It should be noted, however, that there are several BPRs in progress where budgetary savings are expected.

In addition to the budget adjustments listed in Attachment I-C, the combination of the Purchasing Division (currently part of the Financial Management Department), Equal Opportunity Contracting Department, and Purchasing and Contracting Department is requested in order to create the new Purchasing and Contracting Department as described in the Contracting BPR.

#### **Major General Fund Revenues Table 1 (D)**

Staff request that the Major General Fund Revenue budget be increased by \$10.5 million (see line item D in Table 1, Summary of General Fund Budget Adjustments.) This amount will partially offset the impacts of the requested budget increases/(decreases) and budget corrections. This adjustment, combined with other requested revenue budget adjustments will increase the total General Fund revenue budget by \$6.2 million, the amount of over budget revenue that is projected at this time. Refer to the Fiscal Year 2007 Mid-Year General Fund Revenue Monitoring Report, 07-031, for a discussion of year-end revenue projections. The Major General Fund Revenue budget will not be increased by the entire \$16.9 million of projected budget surplus due to under budget revenue projections in other departments throughout the General Fund. Revenues will continue to be monitored and additional revenue budget adjustments may be requested in future monitoring reports.

#### **Reallocation of Salary Appropriations to Reserve Account Table 1 (E)**

Salary savings have been projected in several General Fund departments. Budget adjustments are requested for some of these departments because the City Charter prevents the use of funds budgeted for salaries to be used to support fringe and NPE. In order to ensure that projected salary savings, in the amount of the requested increase in fringe and NPE appropriations, are realized at year-end, staff request that salary appropriations be moved from General Fund operating department budgets and placed in a salary reserve account in the Citywide Program Expenditures Department. The amounts to be transferred are \$613,000 from the Office of the City Attorney, \$644,000 from the Park and Recreation Department, and \$3.8 million from the Police Department. This will have no net impact on salary appropriations in the General Fund. See line item E in Table 1, Summary of General Fund Budget Adjustments.

#### **Repayment to Recycling and Refuse Disposal Funds Table 1 (F)**

The amount of expenses estimated to be charged to the Environmental Services Department's Recycling and Refuse Disposal Funds this fiscal year that should be paid by the General Fund, based on the legal requirements of the funds as reported by the Office of the City Attorney, is estimated at \$2.0 million. Staff requests additional General Fund expenditure appropriations in order to refund the Recycling and Refuse Disposal Funds for expenses associated with the following programs: bay and beach barrel collection, EDCO collection, Mission Bay and shoreline parks collection, container management and delivery, HazMat internal program, underground storage tank program, lead safe neighborhoods, and the environmental library. The requested adjustment includes appropriations to repay the enterprise funds for departmental management, administration, data processing, payroll, training, and other department-wide support functions that were inappropriately allocated amongst the three funds in the department. See line item F in Table 1, Summary of General Fund Budget Adjustments.

## Repayment to Sewer and Water Funds Table 1 (G)

The General Fund must refund \$1.1 million of expenses charged to the Water and Metropolitan Wastewater Departments in fiscal year 2003, based on the findings of auditors Mayer Hoffman McCann. See line item G in Table 2, Summary of General Fund Budget Adjustments.

## CONCLUSION

Budget adjustments are requested for several purposes: to provide funding for new needs and projects; correct errors and make structural changes to the budget; implement BPR results; increase the General Fund revenue budget based on revised projections; and fund the repayments to the Recycling, Refuse Disposal, Sewer, and Water Funds. These changes result in a net reduction of 10.00 FTE, a net increase of \$11.6 million in expenditure appropriations, and a \$6.2 million increase in the revenue budget of the General Fund. See Table 1, Summary of General Fund Budget Adjustments. In order to balance the General Fund to accommodate all the adjustments requested in this report, an allocation of \$5.4 million is needed from the General Fund Unallocated Reserves.

At this time, net expenditure savings and surplus revenues are projected to be \$12.2 million at year-end; of this amount, staff request that \$5.1 million in expected salary savings be transferred to a salary reserve account. Please refer to the Fiscal Year 2007 Mid-Year General Fund Expenditure Monitoring Report. These savings, if realized, will be allocated to the General Fund reserves at the end of fiscal year 2007, and will more than offset the funds being requested from the Unallocated Reserves for the new expenditure appropriations outlined in this report.

FISCAL CONSIDERATIONS: General Fund budget adjustments require \$5.4 million of appropriations from General Fund reserves.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: None.

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Mary Lewis  
Financial Management Director

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Jay M. Goldstone  
Chief Financial Officer

Attachments:

- I. Budget Increases/(Decreases)
- II. Budget Corrections
- III. Business Process Reengineering

**Budget Increases/(Decreases)**

Department/Fund	FTE Increase/(Decrease)	Expenditure Increase/(Decrease)	Revenue Increase/(Decrease)
<b>General Fund Additions</b>			
City Attorney	0.00	\$ 796,000	\$ (2,533,000)
City Planning and Community Investment	0.00	203,000	-
Citywide Program Expenditures	0.00	(4,112,000)	-
Financial Management	0.00	15,000	-
Park and Recreation	0.00	644,000	-
Personnel	0.00	-	(639,000)
Police	0.00	3,822,000	-
San Diego Fire-Rescue	0.00	3,593,000	-
Special Projects	0.00	-	(570,000)
Tax and Revenue Anticipation Notes	0.00	4,000,000	-
TOTAL	0.00	\$ 8,961,000	\$ (3,742,000)
<b>Public Liability Fund</b>			
Citywide Program Expenditures	0.00	3,500,000	-
<b>Non-General Fund Additions</b>			
Central Stores Internal Service Fund	0.00	7,000,000	6,400,000
Zoological Exhibits Fund	0.00	746,698	746,698
TOTAL	0.00	\$ 7,746,698	\$ 7,146,698
<b>Subtotal Budget Additions by Fund</b>			
General Fund	0.00	12,461,000	(3,742,000)
Central Stores Internal Service Fund	0.00	7,000,000	6,400,000
Zoological Exhibits Fund	0.00	746,698	746,698
<b>Total Budget Increases/(Decreases)</b>			
	0.00	\$ 20,207,698	\$ 3,404,698

**Budget Corrections**

Department/Fund	FTE Increase/(Decrease)	Expenditure Increase/(Decrease)	Revenue Increase/(Decrease)
<b>General Fund Transfers/Restructuring</b>			
Business and Grant Administration	(2.00)	\$ (200,048)	\$ -
Community and Legislative Services	2.00	200,048	-
Business and Grant Administration	0.00	(115,539)	-
Mayor	0.00	115,539	-
Business and Grant Administration	0.00	(3,350)	-
Business Office	0.00	(1,675)	-
Chief Operating Officer	0.00	(2,513)	-
Customer Services	0.00	(1,675)	-
Mayor	0.00	(1,675)	-
Community and Legislative Services	0.00	10,888	-
Customer Services	(3.00)	(199,474)	-
Community and Legislative Services	3.00	199,474	-
Department of Finance	(1.00)	(201,356)	-
Financial Management	1.00	201,356	-
Engineering and Capital Projects	(1.00)	(347,939)	-
General Services	1.00	347,939	-
General Services	(101.00)	(9,656,486)	(25,683,216)
City Treasurer	31.00	3,874,691	7,321,204
Police	70.00	5,781,795	18,362,012
MWWD - Storm Water Pollution Prevention	(25.34)	(13,561,608)	(471,984)
General Services	25.34	13,561,608	471,984
Special Projects	(2.00)	(370,979)	-
Department of Finance	2.00	370,979	-
<b>TOTAL</b>	<b>0.00</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Multi-Fund Transfers/Restructuring</b>			
Financial Management	(2.00)	(229,444)	-
Information Technology Fund	2.00	229,444	-
Human Resources (General Fund)	0.00	(3,094,563)	-
Risk Management Administration Fund	0.00	3,094,563	-
<b>TOTAL</b>	<b>0.00</b>	<b>\$ -</b>	<b>\$ -</b>
<b>General Fund Reductions</b>			
City Auditor and Comptroller	(3.00)	(299,487)	(299,487)
Community and Legislative Services	0.00	-	(181,000)
Financial Management	(2.00)	(229,552)	(125,000)
<b>TOTAL</b>	<b>(5.00)</b>	<b>\$ (529,039)</b>	<b>\$ (605,487)</b>
<b>Subtotal Budget Additions by Fund</b>			
General Fund	(7.00)	(3,853,046)	(605,487)
Information Technology Fund	2.00	229,444	-
Risk Management Administration Fund	0.00	3,094,563	-
<b>Total Budget Corrections</b>	<b>(5.00)</b>	<b>\$ (529,039)</b>	<b>\$ (605,487)</b>



**Business Process Reengineering Budget Adjustments**

Department/Fund	FTE Increase/(Decrease)	Expenditure Increase/(Decrease)	Revenue Increase/(Decrease)
<b>General Fund</b>			
City Auditor and Comptroller	0.00	\$ (5,154)	\$ -
City Planning and Community Investment	0.00	(8,552)	-
City Treasurer	0.00	(5,815)	-
Community and Economic Development	0.00	(7,059)	-
Community and Legislative Services	(1.00)	(116,063)	-
Customer Services	0.00	(4,811)	-
Engineering and Capital Projects	4.00	185,513	(433,156)
Environmental Services	0.00	(5,257)	-
Ethics Commission	0.00	(63)	-
Family Justice Center	0.00	(194)	-
Financial Management	0.00	(365)	-
General Services	0.00	(22,875)	-
Land Use and Economic Development	0.00	127,058	102,678
Library	0.00	(77,959)	-
MWWD - Storm Water Pollution Prevention	0.00	(1,115)	-
Neighborhood and Customer Services	2.00	254,117	10,683
Neighborhood Code Compliance	0.00	(5,860)	-
Office of Ethics and Integrity	0.00	(72)	-
Office of Homeland Security	0.00	(157)	-
Park and Recreation	0.00	(54,478)	-
Police	0.00	(20,284)	-
Public Safety	1.00	106,837	871
Public Works	2.00	254,117	197,344
Purchasing and Contracting	(9.00)	(350,224)	(163,029)
Real Estate Assets	0.00	(3,435)	-
San Diego Fire-Rescue	(1.00)	(116,865)	-
Special Projects	(1.00)	(105,594)	-
<b>TOTAL</b>	<b>(3.00)</b>	<b>\$ 15,391</b>	<b>\$ 15,391</b>
<b>Non-General Funds</b>			
Development Services Enterprise Fund	(1.00)	(120,314)	-
E&CP-Water/Wastewater Fund	1.00	60,544	60,544
Refuse Disposal Funds	(1.00)	(115,320)	-
Sewer Funds	(5.00)	(409,818)	-
Water Department Fund	(2.00)	(201,144)	-
<b>TOTAL</b>	<b>(8.00)</b>	<b>\$ (786,052)</b>	<b>\$ 60,544</b>
<b>Subtotal Budget Additions by Fund</b>			
General Fund	(3.00)	15,391	15,391
Development Services Enterprise Fund	(1.00)	(120,314)	-
E&CP-Water/Wastewater Fund	1.00	60,544	60,544
Refuse Disposal Funds	(1.00)	(115,320)	-
Sewer Funds	(5.00)	(409,818)	-
Water Department Fund	(2.00)	(201,144)	-

**Total Business Process Reengineering (11.00) \$ (770,661) \$ 75,935**

# REVIEW OF FISCAL YEAR 2007 MID-YEAR BUDGET ADJUSTMENTS

Date Issued: March 14, 2007

IBA Report Number: 07-34

## Report Overview

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In its review of the Mayor's Proposed Fiscal Year 2007 Budget (IBA Report No. 06-18), the Independent Budget Analyst recommended several new steps be added to the next year's budget process beginning in the Fall of 2007, including quarterly budget status reports, in addition to the City Auditor's monthly reports required under Charter Section 39.

The Fiscal Year 2007 Period 1-4 Budget Monitoring Update (Report No. 06-191), issued on November 29, 2006, provided a period-to-date assessment of the expenditures and revenues of general fund and non-general fund departments compared to budget, and a status of major and other revenues for the fiscal year. The report included actual (unaudited) expenditure and revenue data from July 1, 2006 through October 20, 2006, and should be considered the first quarterly report of the fiscal year. The report indicated that recommended appropriation adjustments would be included in the mid-year report in addition to revised revenue projections.

Three reports have been issued related to the mid-year status of the City's General Fund, which can be regarded as the second quarterly report. Report No. 07-031, dated January 29, 2007, describes the status of General Fund Revenues, and was presented to the Budget and Finance Committee at its meeting on January 31, 2007. Two additional reports, issued February 21, 2007, included Report No. 07-41 Fiscal Year 2007 General Fund Expenditure Monitoring, and Report No. 07-42 Fiscal Year 2007 Mid-Year Budget Adjustments. These two reports were presented to the Budget and Finance Committee at its meeting on February 28, 2007.

This IBA report reviews significant issues contained in these three reports and makes alternative recommendations for City Council consideration when approving the requested Mid-Year Budget Adjustments. Additionally, possible impacts to the upcoming Fiscal Year 2008 Budget are identified. It is anticipated that the City Council will consider this item at its meeting on March 19, 2007.

The Mid-Year Budget Adjustments Report for Fiscal Year 2007 requests changes to the Fiscal Year 2007 budget for these purposes:

- 1) Modify departmental expenditure and revenue budgets based on year-end projections and on new needs for expenditures not anticipated in the Fiscal Year 2007 budget.
- 2) Adjust the Fiscal Year 2007 budget to correct errors or make structural changes that were identified after the final Fiscal Year 2007 Budget was approved.
- 3) Implement the approved actions for Business Process Reengineering (BPR).
- 4) Increase the General Fund revenue budget to account for projected over budget revenues.
- 5) Reallocate salary appropriations to a reserve account to ensure that General Fund salary savings are available at year-end.
- 6) Repay the Environmental Services Department enterprise funds for activities that were inappropriately budgeted and charged to those funds, based on the legal requirements of the funds as reported by the Office of the City Attorney.
- 7) Return funds to the Water and Metropolitan Wastewater Departments for expenses charged in Fiscal Year 2003 by General Fund departments, based on the findings of the audit conducted by Mayer Hoffman McCann.

This report will review each of the above requests in order, and provide additional information where possible, and may include revised or additional recommendations for City Council consideration.

## Discussion of the Requested Budget Adjustments

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City Charter Section 71 prescribes that in July of each year the City Council must pass an appropriation ordinance, which becomes the City's legal budget spending authority for the fiscal year. The Appropriation Ordinance establishes a comprehensive framework for management of the budget throughout the fiscal year, including the proper delegation of Council authority, and appropriates specific budget dollars for the fiscal year. On July 31, 2006, Ordinance O-19522 was adopted as the Fiscal Year 2007 Appropriation Ordinance.

In recent years, the Appropriation Ordinance had become quite lengthy, and included a broad delegation of authority to the Auditor and Comptroller and the Financial Management Department to administratively implement budget adjustments to Council-approved appropriations. During the Fiscal Year 2007 budget process, a thorough review of past documents was undertaken. The review placed an emphasis on returning the authority for budget adjustments to the City Council, determining the appropriate delegation of authority, and successfully reduced the size and complexity of the Ordinance. In doing this, budget adjustments typically handled administratively in the past may now require specific action by the City Council, such as the appropriation of excess revenues for a specific fund, or departmental program or purpose. On the other hand, significant efforts were made to appropriately budget for anticipated departmental expenditures, including categories that may have been historically

underfunded. It is hoped that efforts to budget at appropriate levels will minimize the need for ongoing budget adjustments throughout the fiscal year, and that requests to the City Council for budget adjustments will be only for items that were truly unanticipated in the budget process, or when unforeseen circumstances have affected assumptions that formed the basis of the budget.

In prior years, adjustments to the budget were requested at the conclusion of the fiscal year, in an effort to ensure a balanced budget by adjusting revenue and expenditure amounts to align with actual levels, and re-allocate or modify departmental budgets as needed. In a change from past practice, efforts will be made to identify needed budget adjustments periodically throughout the fiscal year. This change will provide information in a more timely manner as soon as issues arise that may affect the budget. It is hoped that the exchange of budget information on a regular basis will allow the City Council to participate in the process of identifying possible solutions, instead of being presented with a single recommendation on a myriad of requested adjustments at the end of the fiscal year, where minimal time exists for full discussion.

Issues of Citywide importance that impact the requested budget adjustments will be discussed first, including the vacancy factor and retiree health trust fund.

Vacancy Factor

As described in the Mid-Year Report, the vacancy rate for the General Fund through Period Six is 8.79%, an increase of 0.5% from Period Four and 3.55% higher than the 5.24% budgeted vacancy rate for Fiscal Year 2007.

It should be noted that the Fiscal Year 2007 General Fund Budget included a vacancy factor of \$38.7 million, which was comprised of a reduction to salary and fringe amounts of \$27.8 million and \$10.9 million, respectively. General Fund departments are conservatively estimated to generate an additional \$14.7 million in salary savings, which amounts to an additional 3% of the General Fund salary budget of \$495.6 million, excluding the additional funds saved from related fringe benefits.

GENERAL FUND VACANCY FACTOR

Selected Departments	FY 2007 BUDGETED VACANCY FACTOR	FY 2007 PROJECTED SALARY AND FRINGE SAVINGS *	FY 2007 COMBINED VAC FACTOR AND SAVINGS	TOTAL Savings as % of Vacancy Factor
City Attorney	(\$1,284,569)	(\$280,028)	(\$1,564,597)	122%
City Auditor	(704,656)	(1,525,697)	(2,230,353)	317%
Engin & Capital Projects	(190,732)	(1,883,509)	(2,074,241)	1088%
Fire	(11,473,397)	1,961,507	(9,511,890)	83%
General Services	(971,258)	(4,028,865)	(5,000,123)	515%
Library	(453,286)	(782,093)	(1,235,379)	273%
Park and Recreation	(1,591,706)	(1,078,215)	(2,669,921)	168%
Police	(19,310,722)	(3,401,143)	(22,711,865)	118%
TOTAL DEPTS LISTED	(\$35,980,326)	(\$11,018,043)	(\$46,998,369)	131%
Total General Fund	(\$38,706,266)	(\$14,735,997) **	(\$53,442,263)	138%
Depts Listed as % of General Fund	93%	75%	88%	

\* Reflects departmental estimates - FM projections may vary.

\*\* Salary savings only - does not include fringe savings.

It is important to review the vacancy factor assumed in the General Fund Budget together with these estimated salary savings to realize the magnitude of the impact to departmental budgets and operations. As shown in the table, General Fund departments are likely to achieve a combined vacancy factor and salary and fringe savings totaling \$53.4 million, which represents over 7.1% of the General Fund budget for total salary and fringe expenditure categories. Eight of the major General Fund departments comprising over 93% of the total budgeted vacancy factor are reflected here to show which departments have been most impacted. The vacancy factor and additional salary and fringe savings have been achieved for almost all departments because of directives to hold positions vacant early in the fiscal year while re-organization and business process reengineering efforts are underway.

As presented in the Mayor's Five Year Financial Outlook, it is planned for many of these vacant positions to be removed from the upcoming Fiscal Year 2008 Budget, except in the areas of Public Safety. By removing these vacant positions, it will not be possible to build in a vacancy factor of the same magnitude in the Fiscal Year 2008 Budget, or expect additional salary savings on par with current levels during the next fiscal year, for non-Public Safety areas.

#### Retiree Health Trust Fund

In the Fiscal Year 2007 Proposed Budget, the Mayor stated his desire to begin funding a reserve to cover the future costs of retiree health benefits (also known as Other Post-Employment Benefits or OPEB). Upon the recommendation of the IBA, the City Council concurred with this recommendation and voted to add the \$5 million requested by the Mayor into the Fiscal Year 2007 Annual Budget.

Based on supporting data to the Mid-Year Report, it appears that funds have not been set aside incrementally over the course of the year thus far to meet this \$5 million budget by year-end. Further, it is unclear whether or not the projections in the report assume that the entire \$5 million will be set aside in the last few remaining months of the year or not. At this time, the Financial Management Department is unable to confirm if the \$5 million is assumed to be achieved as part of their year-end projections. If these expenditures are not a part of the underlying assumptions of the Mid-Year Report, the projected year-end surplus is overstated. However, it is our understanding that this will be clarified at the earliest opportunity and that the \$5 million will be set aside into a trust fund by the end of the year in accordance with the budget, even if it reduces the projection for the year-end surplus.

The IBA is concerned that if this account has been under-projected in the Mid-Year Report, this may create problems for departments across the City. Especially for departments that are already projecting a deficit in their other fringe accounts, increasing the year-end projection for this fringe account will only exacerbate the total projected deficit. As examples, the Police Department and the Fire-Rescue Department are already projecting deficits in fringe, and are proposed for appropriations increases in this action to correct that projected deficit. Additional requests may be needed prior to year-end for the Office of the City Attorney. **The IBA suggests that the CFO advise the City Council on whether or not additional appropriation increases might be necessary for these, or any other departments, if their projected fringe deficits are larger than reported in the Mid-Year Report.**

**Request # 1) Modify the following departmental expenditure and revenue budgets based on year-end projections and on new needs for expenditures not anticipated in the Fiscal Year 2007 budget**

FISCAL YEAR 2007 GENERAL FUND EXPENDITURE ADJUSTMENTS	
Description	TOTAL Increase/(Decrease)
<b>Budget Adjustments</b>	
City Attorney	\$796,000
City Planning & Comm Invest	203,000
Citywide Program (Special Promo)	(4,112,000)
Financial Management	15,000
Park & Recreation	644,000
Police	3,822,000
San Diego Fire – Rescue	3,593,000
Tax and Revenue Anticipation Notes	4,000,000
Public Liability Fund from Citywide	3,500,000
<b>Total Budget Adjustments</b>	<b>\$12,461,000</b>
<b>Revised Recommendation:</b>	
Fire-Rescue Salary Increase – fund from excess salary appropriations	(\$1,359,731)
<b>Revised General Fund Net Increase</b>	<b>\$11,101,269</b>

Budget changes (increases and decreases) for several departments are requested to mitigate projected over expenditures or to support new expenditures identified this fiscal year, since the adoption of the Fiscal Year 2007 Budget, as shown in the chart to the left. All requests are for the non-personnel category, except for the Fire-Rescue Department. As explained later in this report, due to the large salary savings being experienced throughout the General Fund, it is recommended that excess salary appropriations be re-allocated to the Fire-Rescue Department in the amount of \$1,359,731, eliminating the need to increase the total General Fund budget by this amount.

Departmental revenues for the General Fund are expected to be less than budgeted levels by approximately \$10.7 million, with changes expected among the seventeen departments listed in the accompanying table. Most notably, changes to Service Level Agreements have affected many departments, due to cancellation of these agreements since the adopted budget which will discontinue the receipt of revenue for these services.

FISCAL YEAR 2007 GENERAL FUND REVENUE PROJECTIONS			
Department	FY2007 Budget (in millions)	FY2007 Projection (in millions)	Change (in millions)
EOCP	\$1.7	\$0.6	-\$1.1
Personnel	0.6	0.0	-0.6
Purchasing & Contracting	0.8	0.0	-0.8
Comm & Leg Svcs	1.0	0.8	-0.2
City Auditor	3.0	2.5	-0.5
City Treasurer	17.1	16.5	-0.6
Debt Management	0.8	0.4	-0.4
Financial Management	1.9	1.7	-0.2
City Planning	3.0	2.8	-0.2
Comm & Econ Dev	3.4	3.0	-0.4
Real Estate Assets	32.5	33.3	0.8
Park & Recreation	18.8	18.3	-0.5
Special Projects	0.9	0.3	-0.6
Police	24.6	23.7	-0.9
Fire	14.7	14.4	-0.3
General Services	67.5	65.8	-1.7
City Attorney	8.0	5.5	-2.5
Other/Misc	37.4	37.4	0.0
<b>Total Departmental Revenues</b>	<b>\$237.7</b>	<b>\$227.0</b>	<b>\$10.7</b>

### City Attorney

An expenditure appropriation increase of \$796,000 is requested to mitigate the increased spending on contracts for temporary employees, court and litigation related activities, and additional unbudgeted expenses for cell phone and data processing services. Projected salary savings of \$613,000 are recommended for transfer to the salary reserve account.

The City Attorney's Office projects a higher shortfall in its non-personnel accounts totaling \$1.1 million, with approximately \$300,000 attributable to a possible over expenditure in fringe expense. However, appropriation adjustments for fringe expenses have not been recommended at this time.

A revenue budget reduction of \$2.5 million has been requested due to the change in billing practices for SLAs and reduced legal work for the Water and Metropolitan Wastewater Departments. The SLA revenue is expected to be \$3.8 million below budget this year but is offset by litigation awards revenue that has surpassed the budget of \$1.6 million by \$1.3 million.

The IBA is concerned, in general, with department projections where salary savings are expected to occur without commensurate savings in fringe benefits. Since salary and fringe expenditures either occur together, or do not occur at all in the case of vacancies, it is curious that a department would experience an over expenditure in one category with concurrent savings in the other.

As a separate matter, in a memo dated March 2, 2007, Council President Peters requested the CFO and the City Attorney identify outstanding legal costs that could impact the City's General Fund for the remainder of the fiscal year, so the City is prepared to address these expenditures.

### Park and Recreation

Park and Recreation has historically been underfunded for new facilities and related activities. Additional funds were included during the Fiscal Year 2007 budget process specifically to address the costs related to new facilities expected to open during the year, though additional funding, required for new facilities that opened in prior years, was not provided. As the IBA has previously noted, it is important to provide for ongoing operations and maintenance costs when the City builds new facilities. If the City cannot afford to operate and maintain them, they should not be built. \$1.9 million and 16.02 full-time equivalents (FTEs) were added to the budget at the direction of the City Council, specifically for new facilities in the current fiscal year.

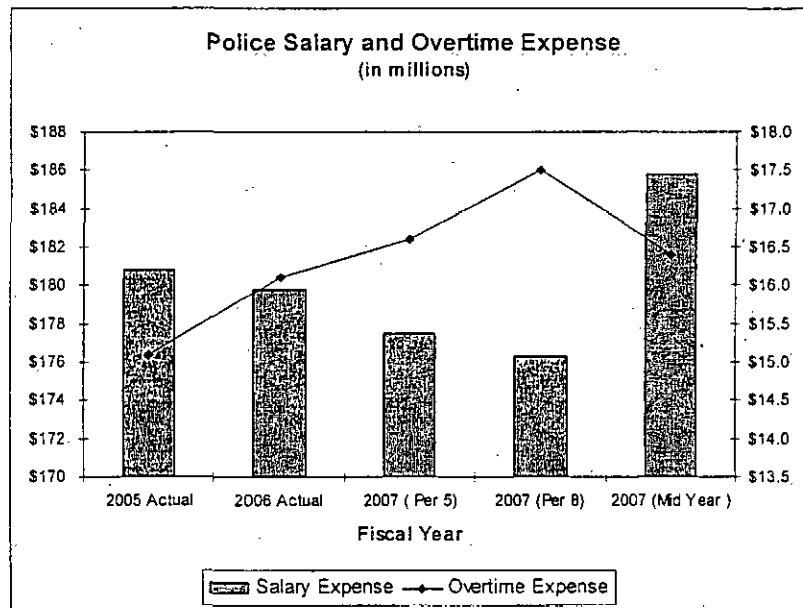
**The IBA recommends appropriate staffing, and operations and maintenance levels for Park and Recreation facilities be fully evaluated to ascertain the costs of any backlog of underfunded or unfunded facilities for consideration for the Fiscal Year 2008 Budget.**

Park and Recreation estimates salary savings of \$1.3 million due to vacant positions, while an increase of \$644,000 has been requested for expected over expenditures in the non-personnel category. Increased costs are due to waste removal services previously funded by the Refuse Disposal Fund, increased costs for downtown restroom maintenance due to the Living Wage Ordinance, and unbudgeted new facilities costs.

Earlier this fall, the Blue Level Swim program was proposed for elimination, and it came to light that the Park and Recreation Aquatics Program has operated with a significant financial deficit over the last several years. This fiscal year, revenue shortfalls for the pools are estimated at \$458,000, due to competition from other pool locations and reduced hours of operation. No changes have been implemented or are expected for the City's pool program for this fiscal year and Park and Recreation has been able to continue these services by using savings from other areas. **The IBA recommends a full fiscal analysis of the Aquatics Program be done as part of the Fiscal Year 2008 Budget to finally address the ongoing deficit in the Aquatics Program.**

Police Department

The IBA has reviewed historical information for the Police Department and believes that the year-end projected savings identified in the Fiscal Year 2007 Mid-Year Report are conservative. Salary expenses for the Police Department have reflected a declining trend over the last few years, with average salary costs per pay period dropping even more during the current fiscal year. In contrast, overtime costs have increased, and show signs of continuing to grow.



The Mid-Year Report projects a year end salary expense of \$202.2 million; a salary savings of \$4.2 million, over and above the budgeted vacancy factor. In Fiscal Years 2005, 2006, and 2007 (as of Period 5), the Police Department has experienced an average salary expense of approximately \$6.9 million per pay period (excluding overtime), which equates to a year end expense of roughly \$179 million. In order for the projections in the report to be achieved, an average of \$7.1 million must be expensed per pay period, which is an increase of \$200,000 per pay period over current experience. Information as of Period 8 (February 2007) validates a projection based on an average pay period expense of \$6.8 million, even less. Therefore, based on historical data as well as current Police Department staffing levels, the IBA believes the Police Department will not achieve an average pay period expense of \$7.1 million and will far surpass the additional salary savings projected in the Mid-Year Report. Using Period 5 Year-to-date information, the IBA believes the Police Department is likely to expend closer to \$194.1 million (including salary expenses of \$177.5 million and \$16.6 million in overtime) for a savings of \$12.3 million over and above their budgeted vacancy savings, which is \$8.1 million more than reported in the Mid-Year.

The Fiscal Year 2007 Budget included an additional \$2.5 million in funding for information technology. This was a structural budget fix that occurred to enhance clarity and transparency in the Police Department's Budget. Unfortunately, it is projected that a significant deficit will



occur by year end (28%). In conjunction with the data processing budget, DPC establishes the rates and recommends the budget for telephone services. This is an additional area in which the Police Department is significantly underfunded. As of Period 5, nearly 93% of telephone services have been expensed.

**The IBA recommends that additional review of the Police Department's information technology budget (including telephone services) be performed as part of the Fiscal Year 2008 budget process.**

Also, since no funding was provided to support the opening of the Northwestern Facility, which opened March 10, 2007, the expenses associated with operating this facility for approximately four months (i.e. utilities, data processing) will cause further deficits in the Department's budget.

#### Fire-Rescue Department

The IBA previously raised concerns about the \$11 million vacancy factor for the Fire-Rescue Department, which in essence eliminated any benefit of increases to appropriations of \$8 million for overtime costs, and is pleased to see actions are being taken to adjust the Fire-Rescue Department for an above-average factor. The Mid-Year Report projects a deficit of approximately \$1.4 million, primarily as a result of this high vacancy factor.

**The IBA recommends the \$1.4 million salary deficit for the Fire-Rescue Department be funded from salary savings re-allocated from other departments, reducing the amount to be placed in the Citywide Salary Reserve Account.**

The IBA notes that the back-up materials provided by the Financial Management Department show the Fire-Rescue Department has different projections than those reported in the Mid-Year Report. The Department's information differs as follows:

- Salary and Wages are projected to be \$100.9 million (a deficit of \$1.0 million compared to the Mid-Year Report's deficit of \$1.4 million).
- Fringe Benefits are projected to be \$52.9 (a deficit of \$2.0 million compared to the Mid-Year Report's deficit of \$0.6 million).
- The Mid-Year Report calls for an adjustment of \$3.6 million for personnel and non-personnel expense deficits, but the Department does not request an adjustment for projected deficits in the Supplies & Services and Data Processing accounts. The Department has requested to wait until the third quarter adjustment to determine if any further budget adjustments may be required.

If the Department's projections are accurate, the actual adjustment needed by year end may be \$4.2 million (compared to the requested \$3.6 million) for projected deficits in salary and wages (\$1.0 million), fringe benefits (\$2.0 million), and non-personnel expenses related to the UASI Grant (\$1.2 million).

As a point of comparison, in the Fiscal Year 2006 Year-End Budget Adjustments, the Fire-Rescue Department required an increase to General Fund appropriations of \$5.9 million for operation services including personnel-related costs due to terminal leave payouts, special pay and overtime. Of this amount, \$1.6 million was to be mitigated by Federal Emergency Management Agency reimbursement, and the remaining \$4.3 million was to be funded by citywide General Fund savings and/or excess revenues.

**Because of this continuing trend, the IBA recommends the Fiscal Year 2008 Budget for the Fire-Rescue Department be carefully reviewed and augmented as necessary to eliminate the annual need for mid-year budget adjustments for anticipated recurring costs.**

#### City Auditor and Comptroller

In its projections, the Auditor Department has reflected the City Auditor position to be vacant for the remainder of the fiscal year. This is inconsistent with the need to move quickly on recruiting and filling this critical position. Projections also included the filling of 18 positions during the months of January and March, though it is unclear if any of the new hires would be assigned to the City's internal audit function. In spite of these new hires, the department projects total savings of \$1.5 million at year-end. While salary appropriations have not been recommended to be removed from the Auditor's budget, and efforts to hire would not be hampered by these projections alone, it is important to stress that efforts should be made to recruit and staff key positions which may be crucial to the City in its remediation efforts.

Additionally, the Auditor Department submitted a request for an appropriation adjustment for property tax administration costs of \$1.2 million. In the past this type of budget adjustment could have been handled administratively by the appropriation of additional property tax revenues in excess of budget, which offset these costs. However, changes to the Appropriation Ordinance for Fiscal Year 2007 did not delegate this level of authority to the Auditor & Comptroller, thus requiring City Council action to rectify. The Mid-Year Report describes that funds budgeted for this purpose are reflected in the Auditor Department, however, the requested appropriation increase is shown as an increase to the Citywide Program Department. It is suggested that budget adjustments should be made to the department where the costs were initially budgeted and incurred, and not elsewhere. This will allow all interested parties to understand the full amount of funds budgeted and expended for a particular program or purpose, and eliminate confusion on where costs are to be found.

#### Tax and Revenue Anticipation Notes (TRANS)

The Mid-Year Report requests an expenditure appropriation increase of \$4 million due to increased borrowing costs. The accompanying Mid-Year Expenditure Monitoring Report cites (page 4) the need to borrow as a private placement (rather than in the cheaper publicly traded markets), rising interest rates and the City's inability to complete its outstanding CAFRs. At the Budget Committee meeting on February 28, 2007, the CFO and the Financial Management Director offered the following comments in an effort to clarify:

- The Fiscal Year 2007 budgeted interest expense was based on the FY 06 budgeted figure; however, in FY 06, TRANS were utilized as a line of credit and funds were only drawn when needed thereby incurring less interest expense.
- In Fiscal Year 2007, recognizing a positive arbitrage opportunity, the City took the entire TRANS allocation (\$142 million) at the beginning of the year which increased interest expense. The IRS allows municipalities (only with TRANS) to borrow at tax-free rates and reinvest at taxable rates, keeping the difference. According to Mary Lewis, Director of Financial Management, in her comments at the Budget Committee meeting, interest expense was more than offset by associated interest earnings (estimated to be more than \$5 million over the Fiscal Year 2007 budgeted amount).

- TRANS were issued as a private placement rather than in the cheaper publicly traded markets.
- Interest rates were higher than anticipated.

#### Neighborhood Code Compliance

The Neighborhood Code Compliance Division transferred to the Development Services Department in Fiscal Year 2007. Due to the transfer, a few management and administrative positions are no longer required. The large expenditure savings is due to the eleven vacant positions. Neighborhood Code Compliance is currently projecting a 14 percent salary savings for Fiscal Year 2007. This is in addition to the 5.4 percent vacancy rate that was factored in the Fiscal Year 2007 budget.

The department plans to hire the following six vacant field positions prior to year end: (2) Code Compliance Officers, Sr. Combination Inspector, Combination Inspector I, Sr. Zoning Investigator, and Zoning Investigator I.

#### Real Estate Assets

The Real Estate Assets Department is currently projecting a 15 percent salary savings for Fiscal Year 2007. This is in addition to the 0.7 percent vacancy rate that was factored in the Fiscal Year 2007 budget. The salary savings is due to three vacant unclassified Asset Managers that are anticipated to be filled by the end of the fiscal year.

One of the Mayor's goals for the Real Estate Assets Department is to update expired leases that have the potential to increase revenue. This will allow the City to realize the maximum financial potential of its leaseholds. New policies are in the process of being established for new leases and lease extensions. Changes to the City Lease policy and updates to Council Policy 700-10, Disposition of City-Owned Real Property, will be heard at the Committee on Land Use and Housing in 2007.

#### **Request # 2) Adjust the Fiscal Year 2007 budget to correct errors or make structural changes that were identified after the final Fiscal Year 2007 Budget was approved.**

Many of the mid-year budget adjustments are characterized as corrections to the current year budget, or cases where departments were inadequately funded in the budget in certain areas, including data processing, energy or fringe benefits. Some adjustments may need City Council action due to the changes in the Appropriation Ordinance; and may have been handled administratively in the past. Many non-General Fund Departments would have previously had the ability to administratively increase their authorized budgets and expend additional revenues if excess funds were received.

**While supporting Council approval of these adjustments, the IBA recommends that efforts be made to address the necessary mid-year budget corrections in the Proposed Fiscal Year 2008 Budget to avoid repeating these problems next year.**

### Request # 3) Implement the approved actions for Business Process Reengineering (BPR).

#### Business Process Reengineering

Previous requests for City Council actions to approve specific business process reengineering efforts have included authorization to the City Auditor to adjust expenditure and revenue appropriations as needed in order to implement, as shown here.

#### Human Resources BPR

2. Authorize the City Auditor and Comptroller and the City Attorney to prepare the necessary documents to implement the BPR recommended organizational changes:
    - Authorizing the Auditor and Comptroller to adjust expenditure appropriations to reflect the creation of three Group Human Resources Manager positions in Public Safety, Public Works, and the Neighborhood and Customer Services Group.
    - Authorizing the Auditor and Comptroller to adjust revenue appropriations associated with the creation of these Group HR Manager positions.
- 

#### Information Technology BPR

Authorizing the Auditor and Comptroller to adjust expenditure appropriations to reflect the creation of four Group Information Technology Manager positions in Public Safety, Public Works, Land Use and Economic Development and the Neighborhood and Customer Services Group.

Authorizing the Auditor and Comptroller to adjust revenue appropriations associated with the creation of these Group Information Technology Manager positions.

---

While it is helpful to know the amount of the cumulative budget adjustments and the impact to each department because of approved BPRs, additional Council action does not appear to be necessary. However, since BPR adjustments to the budget have not yet been made, it is unclear if individual departments have incorporated these adjustments into their projections and fully understand possible impacts that may occur during the remainder of the fiscal year. Several departments expecting over expenditures in the non personnel area may be further impacted by the BPR adjustments as shown in the Mid-Year Report, which show reductions to budgeted non-personnel areas, because of approved BPRs. The next financial status report should reveal these impacts, if they exist.

**Request # 4) Increase the following General Fund revenue budgets to account for projected over budget revenues.**

Status of General Fund Revenue

The Mayor has requested an increase to the Major General Fund Revenue budget by \$10.5 million. This amount will partially offset the impacts of the requested budget increases/(decreases) and budget corrections. This adjustment, combined with other requested revenue budget adjustments will increase the total General Fund revenue budget by \$6.2 million, the amount of over budget revenue that is projected at this time. The Major General Fund Revenue budget will not be increased by the entire \$16.9 million of projected budget surplus due to under budget revenue projections in other departments throughout the General Fund. Revenues will continue to be monitored and additional revenue budget adjustments may be requested in future monitoring reports.

FISCAL YEAR 2007 GENERAL FUND REVENUE PROJECTIONS			
Revenue Source	FY2007 Budget (in millions)	FY2007 Projection (in millions)	Change (in millions)
Property Tax	\$344.2	\$363.0	\$18.9
Sales and Use Tax	234.9	228.6	-6.3
Transient Occupancy Tax	72.9	78.4	5.5
Franchise Fees	64.6	64.9	0.3
Property Transfer Tax	14.9	8.4	-6.5
Safety Sales Tax	8.2	8.2	0.0
Vehicle License Fees	9.3	9.4	0.2
Other Revenue	36.8	41.7	4.9
<b>Major Revenue Total</b>	<b>\$785.7</b>	<b>\$802.6</b>	<b>\$16.9</b>
<b>Total Departmental Revenues</b>	<b>\$237.7</b>	<b>\$227.0</b>	<b>-\$10.7</b>
<b>Total General Fund Revenues</b>	<b>\$1,023.4</b>	<b>\$1,029.6</b>	<b>\$6.2</b>

Major revenues are projected to exceed the Fiscal Year 2007 Budget by \$16.9 million, while departmental revenues, especially Service Level Agreement (SLA) billings, are expected to be below Fiscal Year 2007 Budget amounts. The net result is a total projected General Fund revenue surplus of \$6.2 million, as shown in the table.

**Request # 5) Reallocate salary appropriations to a reserve account to ensure that General Fund salary savings are available at year-end.**

Citywide Salary Reserve Account

As described earlier in this report, salary savings have been projected in several General Fund departments. Some departments experiencing salary savings due to vacant positions are also expected to over expend in non-personnel accounts for a variety of reasons. Charter Section 73 prevents funds budgeted for salaries to be used for other purposes.

**Charter Section 73: Transfer of Appropriations**

*Upon the written recommendation of the Manager, the Council may at any time transfer all or part of an unencumbered balance of an appropriation to a purpose or object for which the appropriation for the current year has proved insufficient, or may authorize a transfer to be made between items appropriated for the same Department or office; provided, however, the Council shall have no authority to transfer all or any part of the salary account during the fiscal year to any other purpose, save and except in the event of a public emergency, and then only for the purpose of insuring the safety and lives and property of the inhabitants of The City of San Diego.*

In order to ensure that projected salary savings in the amount of the requested increases to fringe and non-personnel appropriations, are realized at year-end, the Mayor has recommended that salary appropriations be moved from General Fund operating department budgets and placed in a salary reserve account in the Citywide Program Expenditures Department. This has been recommended to ensure these funds will be available for placement in the General Fund Reserve at year-end, and will have no net impact on salary appropriations in the General Fund.

Reallocation of Salary Appropriations to Reserve Account	
Department	Salary Increase/(Decrease)
City Attorney	(\$613,000)
Park and Recreation	(644,000)
Police	(3,822,000)
Citywide Salary Reserve	5,079,000
<b>IBA Recommendation:</b>	
Fire-Rescue	\$1,359,731
Citywide Salary Reserve	(\$1,359,731)
<b>TOTAL</b>	<b>\$ -</b>
<i>Balance of Salary Reserve</i>	<i>\$3,719,269</i>

**IF the requested salary reserve account is created, the IBA recommends that salary appropriations first be re-allocated to departments with expected over expenditures in salaries (currently the Fire-Rescue Department), minimizing the amount to be transferred to the salary reserve account. By doing this, amounts to be appropriated from the General Fund reserve for the salary category will be reduced and the General Fund budget will not be increased by as much. Based on discussions with the City Attorney and the CFO, there appear to be no obstacles to implementing this revised recommendation.**

Some may consider the transfer of projected unexpended salary appropriations to a salary reserve account unnecessary at this time. Because all General Fund revenues in excess of expenditures will fall to the General Fund reserve at fiscal year-end anyway, the benefit in creating a salary reserve account is unclear. As many departments are experiencing high levels of vacancies and related savings in personnel costs, it is highly unlikely that these savings will not be available at the conclusion of the fiscal year, especially in the absence of concerted efforts to hire new employees and fill vacant positions. In fact, the IBA is concerned that taking actions to remove these appropriations from specific department budgets will, in essence, be equivalent to a hiring freeze which is not the intended purpose.

**Request # 6) Repay the Environmental Services Department enterprise funds for the following activities that were inappropriately budgeted and charged to those funds, based on the legal requirements of the funds as reported by the Office of the City Attorney.**

The amount of General Fund expenses inappropriately charged to the Environmental Services Department's Recycling and Refuse Disposal Funds this fiscal year, based on the legal requirements of the funds as reported by the Office of the City Attorney, is estimated at \$2.0 million, as detailed in the chart to the left. The IBA supports all efforts for costs to be appropriately charged to the benefiting funds and departments.

RETURN TO ENVIRONMENTAL SERVICES FUNDS	
Item	Amount
<b>REFUSE DISPOSAL &amp; RECYCLING</b>	
Environmental Library	\$24,000
Bay & Beach Barrel Collection	120,000
Mission Bay, Shoreline and Park & Rec Collection	138,000
Lead Safe Neighborhoods Program	912,000
Budget, Revenue Development and Administration	
Safety & Training	
Facilities Maintenance	
Organizational Development	761,000
Automated Container Mgmt	
Internal Hazardous Waste	
Computer Support	
<b>TOTAL</b>	<b>\$1,955,000</b>

**Request # 7) Return funds to the Water and Metropolitan Wastewater Departments for expenses charged in Fiscal Year 2003 by General Fund departments, based on the findings of the audit conducted by Mayer Hoffman McCann.**

RETURNS TO WATER FUND	
Item	Amount
<b>FY 2003</b>	
"Kiddie Hall" Day Care Facility	\$280,000
Equal Opportunity Contracting Program	238,475
Lobbying Contract Costs	79,629
Career Development and Mentoring Program	35,085
Special Training for EOCP	11,017
<b>TOTAL FY 2003</b>	<b>\$644,206</b>
<b>FY 2006</b>	
Reservoir Concessions	\$1,700,000
Reservoir Maintenance Labor	150,000
Chollas Reservoir Water	190,000
Chollas Reservoir Operations and Maintenance	600,000
<b>TOTAL FY 2006 (already approved)</b>	<b>\$2,640,000</b>

In the Fiscal Year 2006 Year-End Budget Adjustments, \$2.64 million, as detailed in the accompanying chart, was authorized for return from the General Fund to the Water Fund, due to the Grand Jury findings on Service Level Agreements with the enterprise funds.

Additional actions have been taken during Fiscal Year 2007 to provide repayment to the Water Fund for current year reservoir recreation costs, previously funded by the Water Department, estimated at \$1.5 million. These costs will now be paid by the General Fund.

COSTS SHIFTED FROM WATER TO GENERAL FUND	
Item	Amount
<b>FY 2007</b>	
Reservoir Recreation (already approved)	\$1,498,250
Chollas Reservoir Water	190,000
San Dieguito River Valley JPA Dues	270,000
<b>TOTAL FY 2007</b>	<b>\$1,958,250</b>
<b>GRAND TOTAL</b>	<b>\$5,242,456</b>

In addition, the General Fund must return \$1.1 million of expenses charged to the Water and Metropolitan Wastewater Departments in Fiscal Year 2003, based on the findings of auditors Mayer Hoffman McCann. This amount is comprised of \$644,206 to be returned

to the Water Fund, and \$428,692 to be repaid to the Sewer Fund.

The amount of General Fund costs due to Water and Sewer Fund repayment or the appropriate shift of payment responsibility to the General Fund totals \$5,671,148. The Mayor has recommended the return of funds and shift of costs as part of his ongoing effort to maintain the integrity and focused use of water and wastewater department funds.

RETURNS TO SEWER FUND	
Item	Amount
<b>FY 2003</b>	
Equal Opportunity Contracting Program	\$254,302
Lobbying Contract Costs	87,353
Career Development and Mentoring Program	73,407
Special Training for EOCP	13,630
<b>TOTAL FY 2003</b>	<b>\$428,692</b>

**As with Request #6, the IBA supports all efforts for costs to be appropriately charged to the benefiting funds and departments.**

### General Fund Reserve

As stated in the Mid-Year Report, the requested \$6.2 million increase in the revenue budget will partially offset the \$11.6 million in requested new expenditure appropriations, and a \$5.4 million gap remains between the projected revenue surplus to be appropriated and the additional expenditure appropriations requested in this report. An allocation of \$5.4 million of General Fund reserves is requested to balance all General Fund budget adjustments.

Based on the IBA's revised recommendation related to the funding of the projected salary deficit for the Fire-Rescue Department in the amount of \$1,359,000, the request for new expenditure appropriations would be reduced accordingly to \$10.3 million, and would require an allocation from the General Fund reserves of \$4.0 million versus the \$5.4 million requested.

The Mayor has requested that anticipated salary savings of \$5.1 million be set aside in a salary reserve account that will be allocated to the General Fund reserves at year-end along with General Fund savings remaining in departments. The IBA's recommendation reduces the salary reserve account to \$3.7 million, if it is established.

The year-end contribution to the reserves from surplus projected revenues and expenditure savings (including the salary savings to be set aside in reserves) is currently projected at \$12.2 million. Based on the IBA's review, it is expected that savings will be greater than this amount, though an estimate has not yet been made.

ESTIMATE OF GENERAL FUND RESERVE	
Item	Amount (in millions)
<b>Mid-Year Report</b>	
Current Balance	\$36.2
Appropriation Increases	(5.4)
Projected savings (inc. salary reserve)	12.2
FY 2007 Budget contribution	7.2
<b>Estimated Year-End Reserve</b>	<b>\$50.2</b>
<b>IBA Estimate</b>	
Current Balance – CFO 1/16/07	\$49.2
Appropriation Increases – revised	(4.0)
Projected savings (inc. salary reserve)	12.2
<b>Estimated Year-End Reserve</b>	<b>\$57.4</b>

The Mid-Year Report indicated that the General Fund reserves balance was currently \$36.2 million, and did not include the \$7.2 million reserve contribution budgeted as part of the Fiscal Year 2007 Budget. However, the CFO's General Fund Reserve table, dated January 16, 2007, reflected a balance of \$49.2 million, including the \$7.2 million. Excluding the \$7.2 million, a discrepancy of \$5.8 million exists among these figures. The IBA is not able to reconcile this inconsistency. The table above illustrates this discrepancy and includes an additional \$1.4 million difference for the reduced withdrawal for appropriation increases under the IBA's proposal.

**The IBA supports efforts to bolster the levels of the General Fund Reserve, and reiterates its position that a comprehensive reserve policy should be created and formalized, and should consider the needs for the Public Liability and Workers Compensation Funds.**

### Audit Committee Support

With the creation of the Audit Committee, there will be a need for an additional committee consultant for the Council Administration budget and possibly an additional professional staff member to advise the Audit Committee. Any costs that may be incurred this fiscal year may be absorbed by the savings currently expected in the Council Administration budget.



The IBA recommends that the costs for Audit Committee positions, as determined to be necessary, be absorbed within the current Fiscal Year 2007 Budget, and be added to the Fiscal Year 2008 Budget to ensure sufficient resources are available for these important functions.

# RECOMMENDATIONS

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Listed below are a summary of the IBA's recommendations:

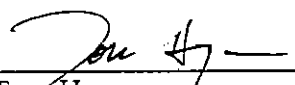
1. The IBA suggests that the CFO advise the City Council on whether or not additional appropriation increases might be necessary for departments, if projected fringe deficits are larger than reported in the Mid-Year Report.
2. The IBA recommends appropriate staffing, and operations and maintenance levels be identified for new Park and Recreation facilities that were underfunded or unfunded in prior years. This underfunding contributed to the need for a mid-year adjustment for Park and Recreation and should be evaluated for correction in Fiscal Year 2008.


Furthermore, the City should not commit to moving forward with a new facility unless it can be definitively determined that it can afford to operate and maintain it.

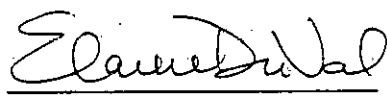
3. The IBA recommends a full fiscal analysis of the Park and Recreation Aquatics Program be done as part of the Fiscal Year 2008 Budget due to the operating deficit in the program over the past several years.
4. The IBA recommends that additional review of the Police Department's information technology budget (including telephone services) be performed as part of the Fiscal Year 2008 budget process.
5. The IBA recommends the \$1.4 million salary deficit for the Fire-Rescue Department be funded from salary savings re-allocated from other departments, reducing the amount to be placed in the Citywide Salary Reserve Account. This will also reduce the amount needed from the General Fund Reserve from \$5.4 million to \$4.0 million.
6. The IBA recommends that efforts be made to address the necessary mid-year budget corrections in the Proposed Fiscal Year 2008 Budget to avoid repeating these problems next year.
7. If the requested salary reserve account is created, the IBA recommends that salary appropriations first be re-allocated to departments with expected over expenditures in salaries (currently the Fire-Rescue Department), minimizing the amount to be transferred to the salary reserve account.

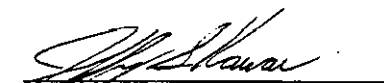
While the IBA does not oppose the creation of the salary reserve account for setting aside salary savings for the remainder of the year, its necessity is not fully understood. The IBA is concerned its creation and use could be construed as a position freeze. If it is established as requested, the amount to be placed in the salary reserve should be reduced from \$5.4 million to \$4.0 million as discussed throughout this report.

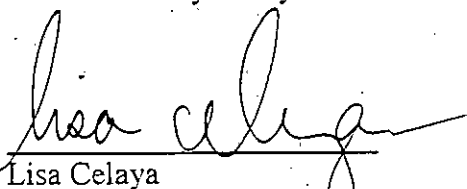
8. The IBA supports all efforts for costs to be appropriately charged to the benefiting funds and departments, including the requested adjustments to repay the Environmental Services, Water and Metropolitan Wastewater Enterprise Funds.
9. The IBA supports efforts to bolster the levels of the General Fund Reserve, and reiterates *its position that a comprehensive reserve policy should be created and formalized*, and should consider the needs for the Public Liability and Workers Compensation Funds.
10. The IBA recommends that the costs for Audit Committee positions, as determined to be necessary, be absorbed within the current Fiscal Year 2007 Budget, and be added to the Fiscal Year 2008 Budget to ensure sufficient resources are available for these important functions.

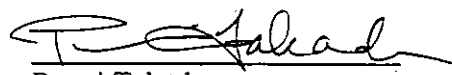
  
Tom Haynes  
Fiscal & Policy Analyst


  
Angela Means  
Fiscal & Policy Analyst

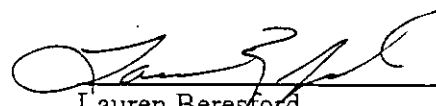
  
Elaine DuVal  
Fiscal & Policy Analyst

  
Jeff Kavar  
Fiscal & Policy Analyst

  
Lisa Celaya  
Fiscal & Policy Analyst

  
Penni Takade  
Deputy Director

  
APPROVED: Andrea Tevlin  
Independent Budget Analyst

  
Lauren Beresford  
Research Analyst



**COUNCILMEMBER TONI ATKINS  
DISTRICT THREE**

**MEMORANDUM**

**DATE:** March 8, 2007

**TO:** Jay Goldstone, Chief Financial Officer

**FROM:** Councilmember Toni Atkins, Chair  
Budget and Finance Committee

**SUBJECT:** Questions and Issues Regarding FY 07 Midyear Budget Adjustments

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Thank you for your presentation of the Mayor's requested midyear budget adjustments at the 2/28/07 Budget and Finance Committee meeting. As you know, committee members had a number of questions and raised a number of issues with respect to this matter. In the interest of facilitating a smooth transition when this comes before the full Council on March 19, 2007 by ensuring the information requested by Councilmembers is available, and for your convenience, following is a list of those questions and issues. Please do not hesitate to contact me if you have any questions. Thank you for your assistance.

1. Audit Committee: consultant and resources.
2. Can Fire/Rescue salary needs be funded out of salary savings?
3. What is the Mayor's plan for addressing police morale and overwork? Are bonuses an option? The committee requested that a proposal be developed by the Mayor.
4. Why are only 30% of the costs of public safety needs for an additional Chargers playoff game reimbursed by Qualcomm Stadium? What is the legal mechanism that controls this? This question was also referred to the City Attorney.
5. Additional detail on the TRANS strategy was requested, particularly the net gain over the old strategy.
6. Additional detail regarding the projected expenditures from the Public Liability Fund was requested, especially those costs attributed to the need for outside legal counsel in the next four months.

7. What additional staff would the auditor/comptroller unit need in order to resume the internal auditing function while the 2003 KPMG audit remains incomplete. The IBA was also asked to analyze this question.
8. Additional detail regarding salary savings in Park and Recreation was requested, with particular emphasis on service levels and whether we have covered the impact of new facilities.
9. In accordance with Council action in support of Councilmember Madaffer's motion at the time of the adoption of the FY 07 Budget in June 2006, allocate a portion of surplus TOT funds to Accessible San Diego. The IBA was also asked to analyze this request.
10. Will the Independent Rate Oversight Commission (IROC) and the Charter Review Commission need staffing and resources this fiscal year? If so, please provide cost estimates.

cc: Members of the Budget and Finance Committee  
Andrea Tevlin, Independent Budget Analyst  
Ronne Froman, Chief Operating Officer  
Mark Blake, Deputy City Attorney

TA:dkb

**REQUEST FOR COUNCIL ACTION**  
CITY OF SAN DIEGO

1. CERTIFICATE NUMBER (FOR AUDITOR'S USE OF) **005**  
3. DATE: **3/26**  
**02/22/07**

TO: **CITY ATTORNEY**

2. FROM (ORIGINATING DEPARTMENT):  
**FINANCIAL MANAGEMENT**

4. SUBJECT:  
**Fiscal Year 2007 Mid-Year Budget Adjustments**

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.)  
**Angela Colton, x65988, MS 8A**

6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.)  
**Mary Lewis, x55880, MS 8A**

7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED

**8. COMPLETE FOR ACCOUNTING PURPOSES**

FUND:	Various		
DEPT.	Various		
ORGANIZATION:	Various		
OBJECT ACCOUNT	Various		
JOB ORDER			
C.I.P. NUMBER:			
AMOUNT	Various		

9. ADDITIONAL INFORMATION / ESTIMATED COST:  
**Requested General Fund budget increases of \$11.6 million in expenditures and \$6.2 million in revenue, requiring an allocation of \$5.4 million of General Fund reserves. Adjustments are also requested in other funds as outlined in the attached report.**

**10. ROUTING AND APPROVALS**

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>Mary Lewis</i>	<i>2/22/07</i>	8	DEPUTY CHIEF/CFO	<i>[Signature]</i>	<i>2/22/07</i>
2				9	COO		
3				10	CITY ATTORNEY	<i>[Signature]</i>	<i>2/22/07</i>
4	LIAISON OFFICE			11	ORIGINATING DEPARTMENT	<i>Mary Lewis</i>	<i>2/22/07</i>
5					DOCKET COORD:	<i>[Signature]</i>	COUNCIL LIAISON: <i>22</i>
6					<input checked="" type="checkbox"/> COUNCIL PRESIDENT	<i>[Signature]</i>	
7					<input type="checkbox"/> SPOB	<input type="checkbox"/> CONSENT	<input checked="" type="checkbox"/> ADOPTION
					<input type="checkbox"/> REFER TO:		COUNCIL DATE: <i>3/19/07</i>

11. PREPARATION OF:  RESOLUTION(S)  ORDINANCE(S)  AGREEMENT(S)  DEED(S)

See Attachment 1

11A. STAFF RECOMMENDATIONS:  
Accept the Report and authorize the City Auditor and Comptroller to revise expenditure appropriations and revenue budgets as outlined in the Fiscal Year 2007 Mid-Year Budget Adjustments Report, 07-058

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): N/A  
COMMUNITY AREA(S): N/A  
ENVIRONMENTAL IMPACT: N/A  
HOUSING IMPACT: N/A  
OTHER ISSUES: N/A

EB 22 11 19 AM '07  
CITY ATTORNEY

SUBJECT: Fiscal Year 2007 Mid-Year Budget Adjustments

REQUESTED ACTIONS:

1. Accept the Mayor's Report.
2. Accept the budget adjustments requested in the Mayor's Report.
3. Authorize the Auditor and Comptroller to make the transfers between departments and funds and to appropriate and to transfer from the City's General Fund Unallocated Reserve Fund, as detailed in the Mayor's Report.

EXECUTIVE SUMMARY SHEET  
CITY OF SAN DIEGO

205  
3/26

DATE ISSUED:	March 14, 2007	REPORT NO:	07-058
ATTENTION:	City Council		
ORIGINATING DEPARTMENT:	Financial Management		
SUBJECT:	Fiscal Year 2007 Mid-Year Budget Adjustments		
COUNCIL DISTRICT(S):	N/A		
CONTACT/PHONE NUMBER:	Mary Lewis, Financial Management Director, (619) 235-5880		

REQUESTED ACTION:

See Attachment 1

STAFF RECOMMENDATION: Approve the requested actions.

EXECUTIVE SUMMARY:

Budget adjustments are requested for several purposes: to provide funding for new needs and projects; correct errors and make structural changes to the budget; implement BPR results; increase the General Fund revenue budget based on revised projections; and fund the repayments to the Recycling, Refuse Disposal, Sewer, and Water Funds. These changes result in a net reduction of 10.00 FTE, a net increase of \$11.6 million in expenditure appropriations, and a \$6.2 million increase in the revenue budget of the General Fund. In order to balance the General Fund to accommodate all the adjustments requested in this report, an allocation of \$5.4 million is needed from the General Fund Unallocated Reserves.

At this time, net expenditure savings and surplus revenues are projected to be \$12.2 million at year-end; of this amount, staff request that \$5.1 million in expected salary savings be transferred to a salary reserve account. These savings, if realized, will be allocated to the General Fund reserves at the end of fiscal year 2007, and will more than offset the funds being requested from the Unallocated Reserves for the new expenditure appropriations outlined in this report.

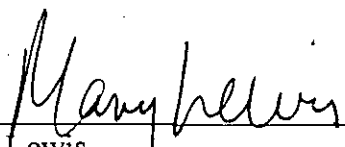
Budget adjustments are also requested for other funds for the same purposes as outlined above. The requested adjustments result in the total citywide budget reduction of 16.00 FTE, and increases of \$21.9 million in expenditure appropriations and \$13.4 million in revenue budgets. Adjustments to other funds do not require additional appropriations from reserves.

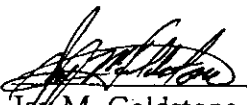
FISCAL CONSIDERATIONS: General Fund budget adjustments require \$5.4 million of appropriations from General Fund reserves.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: This report will be presented to the Budget and Finance Committee on February 28, 2007.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: None.

  
\_\_\_\_\_  
Mary Lewis  
Financial Management Director

  
\_\_\_\_\_  
Jay M. Goldstone  
Chief Financial Officer

ORDINANCE NUMBER O-\_\_\_\_\_ (NEW SERIES)

DATE OF FINAL PASSAGE \_\_\_\_\_

AN ORDINANCE AMENDING ORDINANCE NO. O-19522 (NEW SERIES) ENTITLED "AN ORDINANCE ADOPTING THE ANNUAL BUDGET FOR THE FISCAL YEAR 2006-2007 AND APPROPRIATING THE NECESSARY MONEY TO OPERATE THE CITY OF SAN DIEGO FOR SAID FISCAL YEAR," BY AUTHORIZING THE AUDITOR AND COMPTROLLER TO APPROPRIATE AND TO TRANSFER FUNDS FROM THE CITY'S GENERAL FUND UNALLOCATED RESERVE TO FUND THE FISCAL YEAR 2007 MID-YEAR BUDGET ADJUSTMENTS, APPROVING THE FISCAL YEAR 2007 MID-YEAR BUDGET ADJUSTMENTS AND ACCEPTING THE MAYOR'S REPORT ON FISCAL YEAR 2007 MID-YEAR BUDGET ADJUSTMENTS

WHEREAS, on July 31, 2006, the City Council adopted Ordinance No. O-19522 [Appropriation Ordinance]; and

WHEREAS, the funds appropriated in the Appropriation Ordinance are inadequate to fund the operations of the City through the end of Fiscal Year 2007; and

WHEREAS, an amendment to the Appropriation Ordinance is necessary to adjust the budgets of various City departments, as detailed in the Mayor's Report on Fiscal Year 2007 Mid-Year Budget Adjustments [Mayor's Report]; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1 That the Mayor's Report is hereby accepted.

Section 2 That the budget adjustments requested in the Mayor's Report are hereby approved.



Section 3 That the Auditor and Comptroller is authorized to make the transfers between departments and funds and to appropriate and to transfer funds from the City's General Fund Unallocated Reserve Fund, as detailed in the Mayor's Report.

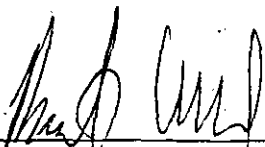
Section 4 That a full reading of this ordinance is dispensed with prior to its final passage, a written or printed copy having been available to the City Council and the public a day prior to its final passage.

Section 5 That this ordinance is declared to take effect and be in force immediately upon its passage after two public hearings pursuant to the authority contained in sections 71, 275 and 295 of the Charter of the City of San Diego.

Section 6 That pursuant to section 280(a)(4) of the Charter of the City of San Diego the Mayor has no veto power over this ordinance.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By

  
\_\_\_\_\_  
Brant C. Will  
Deputy City Attorney

BCW:ai  
02/22/07  
Or.Dept :Financial Mgt  
O-2007-105