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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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# Recommended Actions on FY 2009 Budget Adjustment Proposal

On November 5, the Chief Operating Officer released the Fiscal Year 2009 Budget Amendment Report, which revealed a net current year deficit of \$31.1 million based on first quarter revenue and expenditure projections, and proposed a series of budget and service reductions in order to mitigate the anticipated shortfall. Some of the more significant service and budget impacts include closure of seven branch libraries, closure of nine recreation centers, reduction in police and fire academies and recruitment, and rolling reduction of two fire companies. These proposed budget and service reductions were discussed at the Special Joint Meeting of the Committee on Budget and Finance and City Council Committee of the Whole on November 12.

At the November 12 meeting, the Mayor also released the updated Five-Year Financial Outlook for FY 2010 – FY 2014. The Five-Year Outlook painted a dire financial picture, with significant deficits projected in each of the next five fiscal years, including a \$44.0 million deficit in FY 2010 and a \$68.0 million deficit in FY 2011. In addition, it was discovered at the November 12 meeting that these projected deficits assumed that the budget and service reductions proposed for FY 2009 were maintained for the full five year period. As in prior years, the IBA will be providing a complete analysis of the Five-Year Outlook to the Budget and Finance Committee in January, as well as continue to monitor the current year budget status. However, the message is clear: the City of San Diego is facing serious financial strain.

This report presents the IBA's recommendations with respect to the proposed budget and service reductions for FY 2009. Given the bleak financial outlook, decisive action must be taken immediately to begin addressing the budget shortfall. In all likelihood, the budget and service reductions proposed for FY 2009 will pale in comparison to the reductions that will be needed to close future budget gaps. Revisions to the proposed budget and service reductions should only be considered for the most critical public services. With this consideration, we recommend that identified resources be used only to defer closure of the seven branch libraries and nine recreation centers in FY 2009 until

a comprehensive plan is brought forward to Council. We wish to emphasize that the deferral of library and recreation center closures should be considered a temporary measure, intended only to keep these facilities open until a more deliberate and comprehensive plan for facility closures is developed and presented to Council. This plan should clearly lay out the facility closures and service reductions that will be needed to solve projected future budget deficits, in a manner that is consistent with community priorities. We also recommend that the “rolling brown outs” for Fire not be assumed for continuation beyond FY 2009; and the Fire and Policy Academy class reductions not be assumed for continuation past FY 2010. All other reductions remain as proposed.

In summary, our recommendations are based on the following:

- The City is facing a structural budget deficit and a cyclical economic decline. Permanent solutions must be found for the structural budget deficit.
- Some one-time or short-term solutions, however, should continue to be pursued as they can achieve sizable savings in a relatively short period and can help the City weather the effects of this cyclical economic decline.
- The current year budget must be revised as soon as possible to correct the budget shortfall.
- It is estimated that another \$44.0 million deficit must be addressed to balance the FY 2010 budget.
- Significant deficits, after current year corrective actions, are projected for at least the next five years.
- Potential impacts from State budget actions have not been taken into account and could be an additional impact of \$35.0 million to the General Fund.

## **RECOMMENDED ACTIONS ON BUDGET ADJUSTMENT PROPOSAL**

### **A. Library and Recreation Center Closures.**

As core City services, long-term or permanent closures of branch libraries and recreation centers warrant a public discussion with the City Council regarding how specific facilities have been chosen for closure; future plans for the facilities; potential impacts on the neighborhood; and plans for community notification. The proposed closures of seven libraries were originally announced as temporary through FY 2010 or “when funding becomes available.” When the Five-Year Financial Outlook was presented last week the branch libraries and recreation centers were presented as cuts through at least FY 2014. Realistically, with the Outlook showing significant deficits in each of the five years after all corrective actions, the proposed temporary closures are at best long-term and at worst permanent.

We have pursued options for reducing both branch library hours and recreation center hours in lieu of closures. Reducing hours is a common, long-term, operational cost saving strategy when faced with budget shortfalls. However, a reduction of hours, at

least for full substitution of the closures, has been rejected by both the Library Director and the Park and Recreation Director citing implementation difficulties, negative impact on operations, significant diminution of services and inability to achieve savings equal to the proposed closures. Memos are forthcoming from the Directors on this matter.

Given the significant deficits the City is facing in future years and the likelihood of greater cuts to come, we are recommending a comprehensive facility plan addressing proposed closures along with proposed openings be brought to Council by February 2009 in order to prepare for the future. This will allow the new Council members to be involved in major service delivery decisions which bear long-term impacts on their districts.

Based on projected deficits and future calls for additional departmental cuts, this plan should identify phased closures over a period of several fiscal years based on a range of factors including geographic dispersion; proximity to other facilities; community usage; access to transportation; usage by schools and other groups. Planned building upgrades and maintenance expenses should be reviewed and reconsidered where possible to avoid unnecessary expenditures in light of pending closures. Reducing hours at some facilities should be reevaluated along with closures to determine if this could help minimize closures in the future.

Library closures or consolidations should be evaluated with respect to new facilities under construction or planned for the future. City Council, Board of Library Commissioners, the Library Foundation and community input should be solicited in the development of this plan. The plan should address potential future uses of the buildings and related property, including potential revenue from their sale or lease; issues of public safety and blight; costs for ongoing maintenance of the closed facilities; and a plan for advance notification to the community.

We are offering two options for Council consideration with respect to this specific issue:

**Option 1: Defer a decision on Library branch and Recreation Center closures until a multi-year, comprehensive facility plan is brought forward to the City Council. This is our preferred option.**

Request that this plan be provided to Council for public discussion by February 1, 2009 for implementation no later than July 1, 2009, sooner if possible in order to achieve greater savings. (Cost impacts of a 3-6 month deferral can be offset by FY 2009 savings from the Reservoir Recreation BPR and the Transient Occupancy Tax surplus.)

**Option 2: Support moving forward now with the closures proposed for FY 2009 but request a comprehensive facility plan be brought forward to the City Council, as discussed above, and prior to any closure decisions being made for FY 2010.**

As we have inquired further regarding the proposed closures, a number of issues have surfaced that need further clarification as a part of this plan:

- A new North University Library was opened in 2007, 2.33 miles away from University Community Library which is now on the closure list. This closure appears to be logical in light of the new facility. But if it was considered a replacement library, why was it not closed at the time the new library opened or made clear to the community that this library was planned to be replaced? What is the City’s approach with respect to old libraries when they are in the vicinity of new libraries, and how is it communicated to the public?
- Also, the University Community Library, proposed for closure, is also proposed for expansion in the City’s Library Facilities Improvement Program. It has gone from being a facility identified for expansion in 2002 to being at the top of the list for closure.
- The same is true for the Ocean Beach Library, which is on both the proposed closure list and the proposed expansion list. In 2005, the City purchased land adjacent to the Ocean Beach Library for this expansion. According to Council reports at the time, this property is collateral for a HUD Section 108 loan of \$2.0 million garnered for the Ocean Beach Library. Loan payments are approximately \$223,000 annually through FY 2017 and are being paid from District 2 CDBG allocations. What are the plans for the property purchased for this expansion and are there restrictions on the property?
- A new Logan Heights Library of 25,000 square feet is under construction and is scheduled to open in Fall 2009. This library is to replace the current 3,967 square foot library but the old library is not one of the seven proposed for closure. Are the closure costs for old Logan Heights already assumed in the budget? How is the City going to be able to provide adequate staffing when a 4,000 square foot library is replaced with a 25,000 square foot library?
- Five new branch libraries are in various planning stages. Each of them is 3-6 times larger than their existing replacement facility. How will the City be able to staff these facilities - through additional closures?

Library Facility Improvement Projects					
New Branch Libraries to be Built					
#	Location	Replacement	Old Sq Ft	New Sq Ft	Status of Project
1.	Balboa	Yes	5,092	16,250	Old library to be demolished
2.	Mission Hills/Hillcrest	Yes	3,850	25,000	City has purchased site
3.	North Park	Yes	8,000	25,000	Looking at sites
4.	Paradise Hills	Yes	3,875	15,000	No site or funding yet
5.	San Ysidro	Yes	4,089	15,000	Site has been selected

- If we are facing closure of seven of 35 branch libraries and nine of 52 recreation centers with the current \$31.0 million deficit, what does this mean for FY 2010 with a reduction in hours not being an option? What is the plan for moving

forward - are seven more branch library closures being proposed in a few months? FY 2009 and FY 2010 library and recreation center decisions should be made as a package, and a phased plan should be brought forward that could be put into place for FY 2011 as well.

- The Library Facilities Improvement Program was approved in 2002 but has not been updated since. Projects have not been reevaluated or reprioritized with an eye towards the City's operating budget capacity. Projects have been delayed due to lack of capital funding so the focus has been on pursuing those where grants or developer money has been received. At the same time, the issue related to operating costs has not been reconsidered in light of the City's ongoing budget challenges.
- When the Program was developed in 2002, operating costs for all new facilities were fully identified. The Library Ordinance, requiring that a set level of General Funds be dedicated to libraries each year, was put into place that same year to secure a source of funding for these newly identified operating costs. However, as pressure came to bear on the General Fund, the Library Ordinance has been waived since 2004, to free up funds for other priority areas. In the meantime, the City's Library program has not been revised and community expectations have not been revisited. Library closure has put the importance of this issue into focus.

A comprehensive plan will allow the City and the community to look at this issue from a big picture perspective rather than in a piecemeal fashion. It will allow for a discussion of other possible efficiencies and operational issues, such as the possibility for regional consolidation of facilities, which could yield even more significant savings as well as provide notice to the community of what is to come if the budget situation continues as predicted. We recommend that under either option that such a plan be developed and a full policy discussion be held with the City Council in early 2009.

#### **B. Explore options with the Mayor for the future use of the Library System Improvement Program Fund.**

As part of the Library Facilities Improvement Program, a separate fund was established to provide for lease payments related to debt issuances, for project costs, and project management costs. As the City has not initiated debt issuances for library improvements, the program has not been fully implemented. However, funding for projects and related costs have been funded from the Library System Improvement Program Fund (102216). Cost increases for branch projects that have been able to move forward have utilized this funding source. At present, cash on hand exceeds \$8.5 million, with current encumbrances of \$3.2 million, leaving available funds of \$5.3 million. While the needs of the many branch library projects exceed this amount, consideration could be given to accessing these funds to continue library services, while a comprehensive plan is developed.

**C. Confirm that proposed Fire “rolling brown outs” is a temporary solution only through FY 2009. Request that the Five-Year Outlook be revised to restore related costs beginning in FY 2010.**

“Rolling brown outs,” where two companies per day are reduced on a rotating basis, were originally proposed as a temporary cost saving solution. The Five-Year Outlook has assumed continuance of this service reduction through FY 2014. To confirm this as a temporary solution only, we recommend that Council request revision of the Five-Year Outlook to restore the related costs beginning in FY 2010. This can be reevaluated in the Spring of 2009.

**D. Confirm that the proposed reductions in Fire and Police Academy classes are a temporary solution through FY 2010. Request that the Five-Year Outlook be revised to reflect costs for full academy classes beginning again in FY 2011. Request information on projections for sworn staffing levels for both Police and Fire, based on current attrition levels, anticipated retirements, and academy reduced sizes for FY’s 2009 - 2014.**

Significant progress has been made in the area of Police officer retention since 2006 when staffing levels dropped far below critical staffing levels. Additionally, both Police and Fire will continue to experience time certain retirements tied to five year DROP requirements. The Council should have information on projected sworn staffing levels based on proposed reductions in academy classes when combined with expected retirements. The Council could request the IBA to monitor sworn staffing levels throughout the year and periodically report results to the Public Safety and Neighborhoods Committee.

**E. With several months left in this fiscal year to potentially generate savings from a mandatory furlough, request the Mayor to pursue a mandatory furlough for FY 2009 (as well as FY 2010).**

The option of implementing a mandatory furlough to achieve savings as well as reduce fringe and pension costs has been discussed on numerous occasions. It requires meeting and conferring with City employees which would need to be initiated by the Mayor. We recommend that the Council request the Mayor to initiate these discussions as soon as possible. A mandatory furlough is a common practice that can be implemented relatively swiftly and generate savings without directly impacting City services. If implemented in the current year, it is estimated that up to \$2.0 million in savings could be realized. If not feasible for the current year, this could be pursued for FY 2010 to help minimize service reductions. However, it is important to note that if additional position reductions are required for FY 2010 the projected savings associated with the furlough could be less.

**F. Request the Mayor to consider an across-the-board user fee increase that could be implemented for FY 2009.**

With the exception of a \$200,000 increase in Park and Recreation and Fire-related fees, user fee increases are not considered as a possible source of new revenue for FY 2009. As the City's user fees have not been analyzed or increased in several years, it is likely the General Fund is increasingly subsidizing user fee activities at the expense of priority services. A User Fee policy is expected to come to Council next year for possible implementation in FY 2010. In the Five-Year Outlook, potential revenues are estimated up to \$5.0 million annually.

In the interim, an across-the-board fee increase of 3-5% could be considered and possibly implemented in the current fiscal year. On an annual basis it is estimated that such an across the board increase could generate \$1.0 - \$2.0 million.

**G. Request the Mayor to explore increasing the Junior Lifeguard Program Fee.**

One of the proposed reductions for the Fire-Rescue Department is the elimination of 1.00 Organizational Effectiveness Specialist position, responsible for coordinating lifeguard community education, outreach, and recruitment efforts, including the Junior Lifeguard Program. Currently, the Junior Lifeguard Program charges a fee of \$400 per participant; however, this fee does not recover the cost of this position. The IBA recommends that the Mayor return to the Council to discuss the feasibility of increasing the current program fee to enable the restoration of this position and the program.

**RESOURCE OPTIONS THAT HAVE BEEN UNDER DISCUSSION**

**Reservoir Recreation BPR - \$580,000 Ongoing**

The Reservoir Recreation BPR is expected to come forward for Council approval prior to the end of the calendar year. The IBA was briefed by the Business Office, Park and Recreation and Water Departments back in May 2008 on the highlights of the Reservoir Recreation BPR. At that time, recommendations included fee increases and service level changes which were to positively impact the General Fund in the net amount \$935,000 for Fiscal Year 2009. Fee increases had not been made for over ten years, while maintenance and recreation costs have increased significantly. Due to a delay in approval and implementation, this positive impact is expected to be reduced for this fiscal year to \$580,000. We are recommending this resource be used to offset costs associated with deferring library and recreation center closures for 3 – 6 months.

**Transient Occupancy Tax Surplus – up to \$2.4 million One-Time**

As identified in the November 10 memorandum on Transient Occupancy Tax (TOT) Fund corrective actions, the proposed reductions in TOT allocations would result in a fund balance of approximately \$2.4 million. The memorandum states that this fund balance would be used to assist with balancing the FY 2010 budget, or to provide a reserve in case of additional declines in projected TOT revenue. However, this balance

could also be used to fund additional promotion-related expenditures within the General Fund. We are recommending this resource also be used to offset costs associated with deferring library and recreation center closures for 3 – 6 months.

**Release of Prior Year Encumbrances – up to \$2.2 million One-Time**

When funds appropriated for City projects in previous fiscal years are not expended within the fiscal year, they are typically carried forward into the next fiscal year as prior year encumbrances. This provides funding for the projects to be completed in the next fiscal year. If City staff subsequently determines that encumbered funds are no longer needed for the projects, the remaining encumbrance can be released to fund balance providing unanticipated revenue to the City's General Fund. As mentioned in IBA Report # 08-114, the IBA has determined that approximately \$2.2 million of prior year encumbrances have been released. These funds are available to the General Fund subject only to the City Comptroller taking action to deappropriate the released funds. We continue to recommend the immediate release of these funds.

**Refuse Hauler Franchise Fee - \$750,000 Ongoing/\$190,000 in FY 2009**

The Refuse Hauler Franchise Fee is currently \$11 per ton for Class I haulers (less than 75,000 tons per year) and \$12 per ton for Class II haulers (more than 75,000 tons per year), and can be increased by Council action. While an increase to the Franchise Fee has not been recommended by the Mayor as an FY 2009 corrective action, it is identified in the Five-Year Financial Outlook as a possible solution for FY 2010 and beyond. A \$1 increase in the Refuse Hauler Franchise Fee could generate approximately \$750,000 on an annualized basis; however, due to the quarterly billing schedule, only \$190,000 would be realized in FY 2009.

**Mission Bay Park Ordinance Waiver for FY 2009 – up to \$4.9 million One-Time**

The option for a *one-time waiver* of the FY 2009 appropriation to Mission Bay Park and Regional Park public capital improvements was discussed at last week's Council meeting. Under current Municipal Code 22.0229, the City Council has the ability to temporarily suspend compliance if City Manager (Mayor) determines that anticipated revenues in any fiscal year will be insufficient to maintain existing City Services.

Proposition C was recently passed though a ballot measure, and language in the amendment does not permit a suspension of the allocation to the improvement parks in the event of a fiscal emergency. However, due to the proposition's effective date of July 1, 2009, a one-time waiver could be implemented beforehand and therefore, would be in compliance with the current Charter language. If the waiver was to occur, redirected funds from the improvement parks portion would increase the General Fund by \$4.9 million in FY2009. This would be a one-time resource and would only be appropriate for one-time costs.

The IBA does not support this proposal as it is inconsistent with recent voter approval of Proposition C.



## CONCLUSION

We recommend approval of budget and service reductions in the Mayor's Budget Amendment Report, with the following modifications:

Approve Items A through G, discussed in this report, as changes to the Mayor's original proposal. For Item A, we recommend Option 1 over Option 2. In summary, the recommendations are as follows:

- A. Library and Recreation Center Closures - Option 1**  
**Defer a decision on Library branch and Recreation Center closures until a multi-year, comprehensive facility plan is brought forward to the City Council in early 2009.**
- B. Explore options with the Mayor for the future use of the Library System Improvement Program Fund.**
- C. Confirm that proposed Fire "rolling brown outs" is a temporary solution through FY 2009 by requesting a revision to the Five-Year Outlook to include associated costs in FY 2010 and beyond.**
- D. Confirm that the proposed reductions in Fire and Police Academy classes are a temporary solution through FY 2010 by requesting a revision to the Five-Year Outlook to include associated costs in FY 2011 and beyond.**
- E. Request the Mayor to pursue a mandatory furlough for FY 2009 as well as FY 2010.**
- F. Request the Mayor to consider an across-the-board user fee increase that could be implemented in FY 2009.**
- G. Request the Mayor to explore increasing the fee associated with the Junior Lifeguard Program.**

The attached chart shows the changes to FY 2009 expenditures and resources associated with the recommended actions.

**[SIGNED]**

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Lisa Celaya  
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**[SIGNED]**

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Attachment

**[SIGNED]**

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Jeff Kawar  
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Penni Takade  
Deputy Director

Proposed FY 2009 Mid-Year Budget Changes		
Expenditures	Three-month Delay	Six-month Delay
Defer Library Closures	\$850,000	\$1,700,000
Defer Recreation Center Closures	\$385,000	\$770,000
<b>TOTAL</b>	<b>\$1,235,000</b>	<b>\$2,470,000</b>
Resources		
<u>Reservoir Recreation BPR</u>		<u>\$580,000</u>
<u>Transient Occupancy Tax Surplus</u>		<u>\$2,400,000</u>
<b>TOTAL</b>		<b>\$2,980,000</b>

The impact of restoring “rolling brownouts” in FY 2010 is estimated at \$3.2 million, and could potentially be offset by recommendations for user fees beginning in 2009 or 2010.