



CITY OF SAN DIEGO

FISCAL YEAR  
**2007**  
ANNUAL  
BUDGET

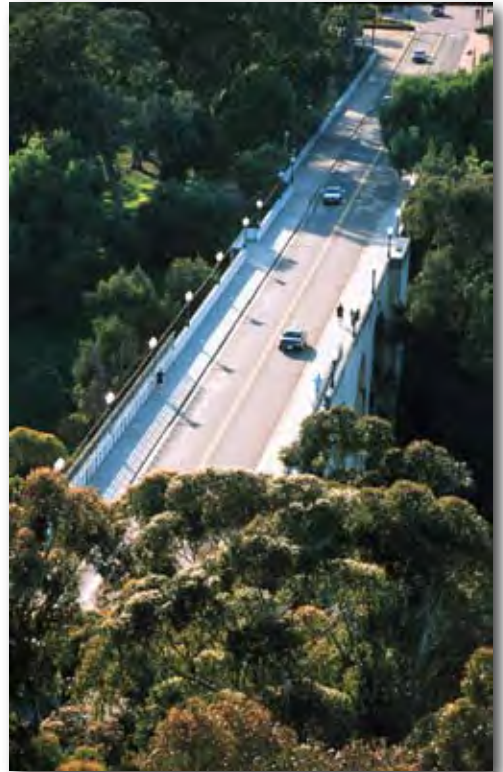
# FISCAL RECOVERY



# Fiscal Recovery

The road to fiscal recovery for the City of San Diego begins with the Fiscal Year 2007 Annual Budget. The Mayor firmly believes that with the help of the City Council, community and business groups and San Diego's citizens, San Diego can and will regain strong fiscal health. The key issues paramount to the City's success are numerous. Some standouts include:

- Structurally Sound Balanced Budget
- Provision of Core General Fund Services
- Establishment of Strong Reserves
- Address the Pension Unfunded Liability
- Managed Competition
- Citywide Reorganization
- Addressing Retiree Health Care Costs
- Business Process Re-engineering
- Funding Deferred Maintenance



## ■ STRUCTURALLY SOUND BALANCED BUDGET

To pursue the future fiscal health of the General Fund requires a clear, complete picture of current General Fund needs and allocations. For example, all positions and expenses within the General Fund need to be accounted for, evaluated, and addressed appropriately, either by budgeting the expense or position or by curtailing or eliminating the activity necessitating the expense.



Departments were asked to submit a comprehensive listing of supplemental positions as part of the Fiscal Year 2007 Annual Budget preparation process. They were then required to both justify the need for the position to their department management and identify a manner in which they could pay for the position within their current appropriation or forego inclusion of the position in their budget and eliminate it from their organizational structure.

The following General Fund and Non-General Fund supplemental positions have been included in the Fiscal Year 2007 Annual Budget:

FUND	FTE
General Fund	270.51
Special Revenue Fund	32.30
Enterprise Fund	108.00
Internal Service Fund	19.50
<b>GRAND TOTAL</b>	<b>430.31</b>

Some of these positions are revenue-producing and are therefore self-funded; others required funding from growth in General Fund revenues.

### ■ PROVISION OF CORE GENERAL FUND SERVICES

It is necessary to take a fresh look at the types of services currently being funded with General Fund dollars and to determine if all are core services should appropriately be paid for with General Fund revenues. Core services would fall within the following categories:

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

If a review of the service levels currently provided for in these categories reveals deficiencies in funding, and there exist other services supported by General Fund dollars that do not fall within these categories, these “non-core” services must be evaluated for possible reduction or elimination. In the majority of

cases, these will be services that may be desirable for our community; however, the City must concentrate on fulfilling primary core responsibilities at optimum funding levels before committing funds to other, non-core services.



## ■ ESTABLISHMENT OF STRONG RESERVES

The Unappropriated Reserve is established to fund General Fund emergencies and assist in maintaining a favorable bond rating. The City must have the ability to carry long-term debt. Credit agencies analyze the City's reserve levels when issuing bond ratings. A healthy reserve level will allow the City to acquire debt at lower interest rates, saving the City and taxpayers millions of dollars. In addition, a strong reserve will help insulate City services against



periodic swings in the economy. Specific expenditures are not budgeted within this reserve and no specific legal guidance or policy restrictions are placed on the use of these funds. However, the Mayor and City Council authorization is necessary to expend these funds. Council Policy 100-20, adopted October 15, 2002, sets a goal of bringing the General Fund Reserve to 5% of the annual General Fund revenues by Fiscal Year 2014. The policy also includes a requirement to make higher contributions in years when the General Fund growth rate exceeds 2%. In those years, contribution to the Unappropriated Reserve should be 10% of all revenues above the 2% growth. This policy and the future funding of the reserve will be re-examined during Fiscal Year 2007. Suggested changes will be brought before the City Council for consideration. It is the goal of the Mayor to go above and beyond this policy and increase reserves to eight percent by Fiscal Year 2010. The Fiscal Year 2007 Annual Budget adds \$7.2 million to the Unappropriated Reserve.

## ■ PENSION

One of the largest challenges facing the City is the Unfunded Accrued Actuarial Liability (UAAL) of the San Diego City Employees Retirement System (SDCERS.) One of Mayor Sanders' commitments to voters is to develop strategies to control the growth in costs and begin paying down obligations. One of the key steps in lowering the obligations was achieved on March 27, 2006 when the City Council voted to put two of Mayor Sanders' measures on the ballot in November 2006. One of these measures will subject future increases in pension benefits to voter approval. In addition, the Fiscal Year 2007 Annual Budget includes \$162 million to pay the City's Annual Required Contribution (ARC), which is composed of both the normal cost (\$82 million) and the unfunded liability cost (\$80 million.) The ARC for Fiscal Year 2007 was computed by the San Diego City Employees' Retirement System's actuary. In addition, City Council approved on April 24, 2006 to infuse the City's Retirement System with \$108.3 million. The City has leveraged an estimated \$10.1 million of the employees' contribution to the Retirement System, which has been secured by the revenue stream the City receives under the Master Settlement Agreement with the tobacco companies. The infusion of \$100 million and the \$8.3 million in employee pick-up savings from Fiscal Year 2006 contributes to paying down the UAAL. The funding ratio as of June 30, 2005 is 68.2% and it is the Mayor's goal to achieve 85% funding levels in the Retirement System. Thus, other options to increase the current funding level of the Retirement System will be proposed during Fiscal Year 2007.

## ■ MANAGED COMPETITION

Another measure added to the November 2006 ballot is Managed Competition, which would allow the City to competitively bid for certain jobs alongside external vendors. This will allow City departments the opportunity to demonstrate their efficiencies by competing with private companies on a level playing field. Managed Competition is expected to maximize City resources and serve as a catalyst for positive internal City reforms that will improve the fiscal health of the City.

## ■ CITYWIDE REORGANIZATION

The structure of the City of San Diego has undergone, and will continue to undergo, a realignment intended to convert the City into a more manageable and responsive organization. Many functions that previously operated independently have now been reorganized under newly created Deputy Chief positions. The Deputy Chiefs will report directly to the Chief Operating Officer and to the Mayor. These functional organizational shifts will do much to aid the fiscal recovery of the City, as they will allow better focus of resources and clearer accountability.

## ■ RETIREE HEALTH CARE COSTS

The next area generating financial pressure on the City is the rising cost of retiree health care. Under Governmental Accounting Standards Board 45, public agencies across the country, including the City, will



have to begin reporting and recording this liability. If changes to the current plan are not made, it has been projected that the City's unfunded Other Post Employment Benefits (OPEB) costs are approximately \$1.38 billion as of June 30, 2005. This is in addition to the City's unfunded pension liability. The Fiscal Year 2007 Annual Budget includes nearly \$21 million to cover the estimated cost of this benefit. In addition, there is \$5 million included in the budget to begin funding a reserve to cover the future cost of these benefits should the City not make changes to the current benefit.

## ■ BUSINESS PROCESS RE-ENGINEERING

Over the course of the next three years, every City process and department will be professionally and thoughtfully examined with the purpose of reducing costs and creating managerial efficiency. Instead of developing hasty solutions, the City is employing Business Process Re-engineering (BPR.) In order to budget most conservatively, there are no savings budgeted as a result of BPR; however, the City expects to eliminate several hundred positions in Fiscal Year 2007 as a result of BPR.

## ■ DEFERRED MAINTENANCE

As in most organizations with severe financial pressures, the City has long neglected the maintenance of most of its assets. The development of a complete inventory of needs is currently underway and will be presented to the City Council during Fiscal Year 2007. In the meantime, the following deferred maintenance projects have been identified for inclusion in the Fiscal Year 2007 Annual Budget:

PROJECT	BUDGET
San Ysidro Rec Center Roof Replacement	\$110,000
Bud Kearns Memorial Pool Roof Replacement	\$135,000
San Ysidro Community Center Roof Replacement	\$90,000
Museum of Man Roof Replacement	\$290,000
Main Library Roof Replacement	\$550,000
Old Globe Roof Replacement	\$500,000
Malcolm X Library Roof Replacement	\$180,000
Museum of Art Roof Replacement	\$640,000
Repair 46th Street Slope Failure	\$270,000
Repair Talbot Street Slope Failure	\$1,000,000
Resurfacing approximately 11 miles of streets	\$4,308,222
Slurry Sealing approximately 40 miles of streets	\$2,520,000
<b>GRAND TOTAL</b>	<b>\$10,593,222</b>

