

Understanding the City's Budget

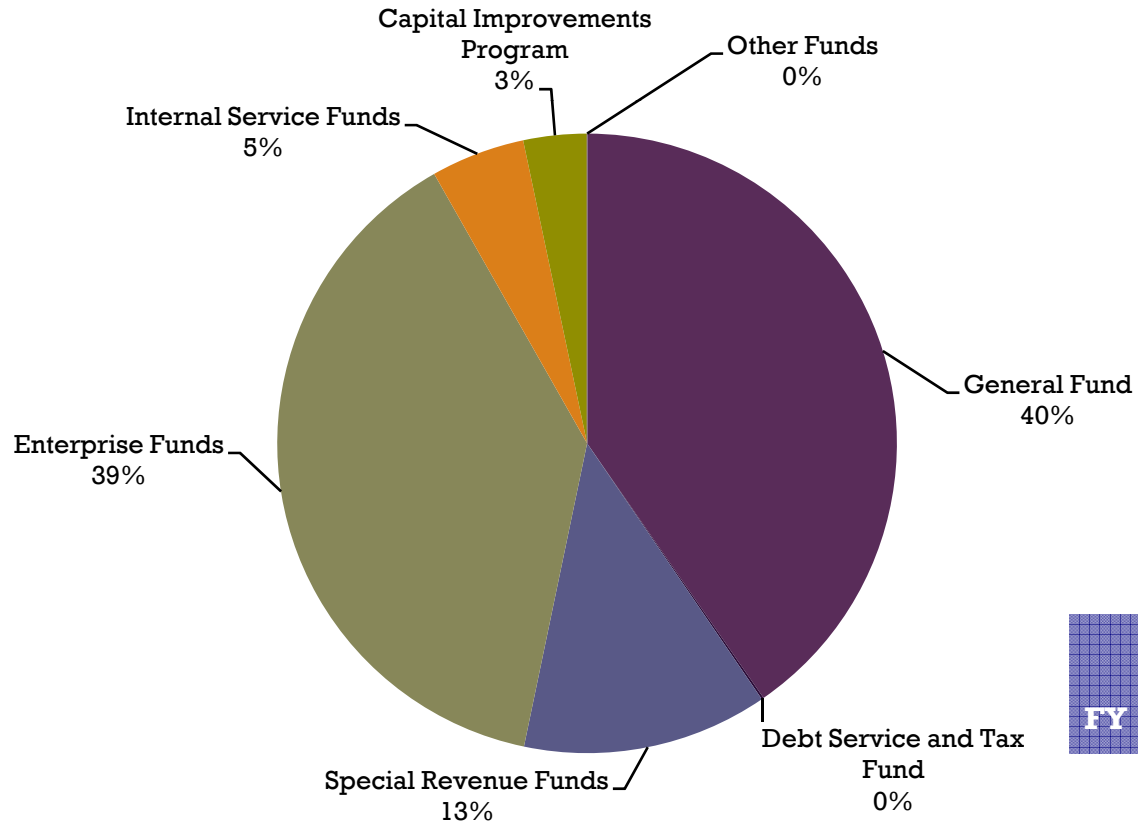
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Council District Three
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Where do City funds come from?

■ Total City Resources FY 2010



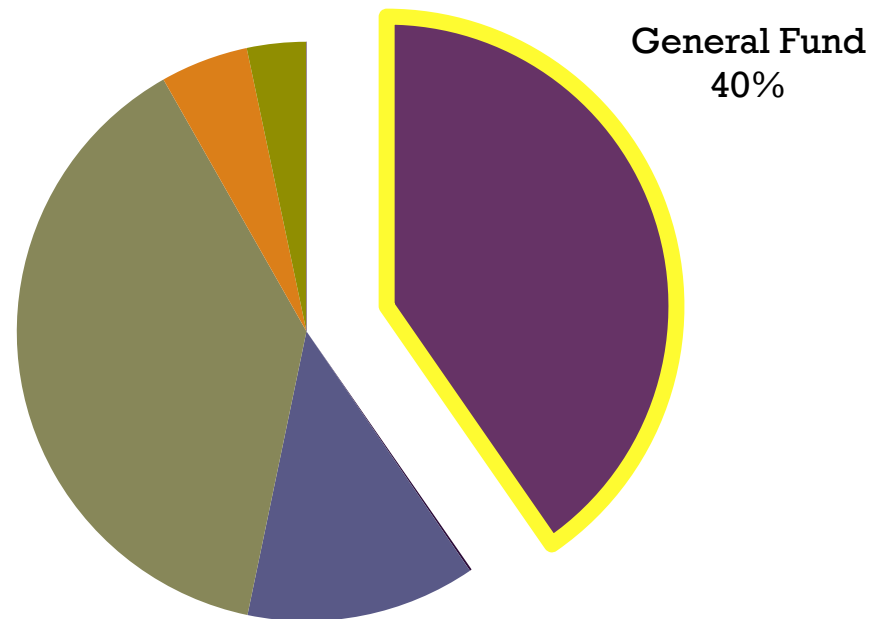
**Total City
Revenues for
FY 10 = \$ 2.8 Billion**



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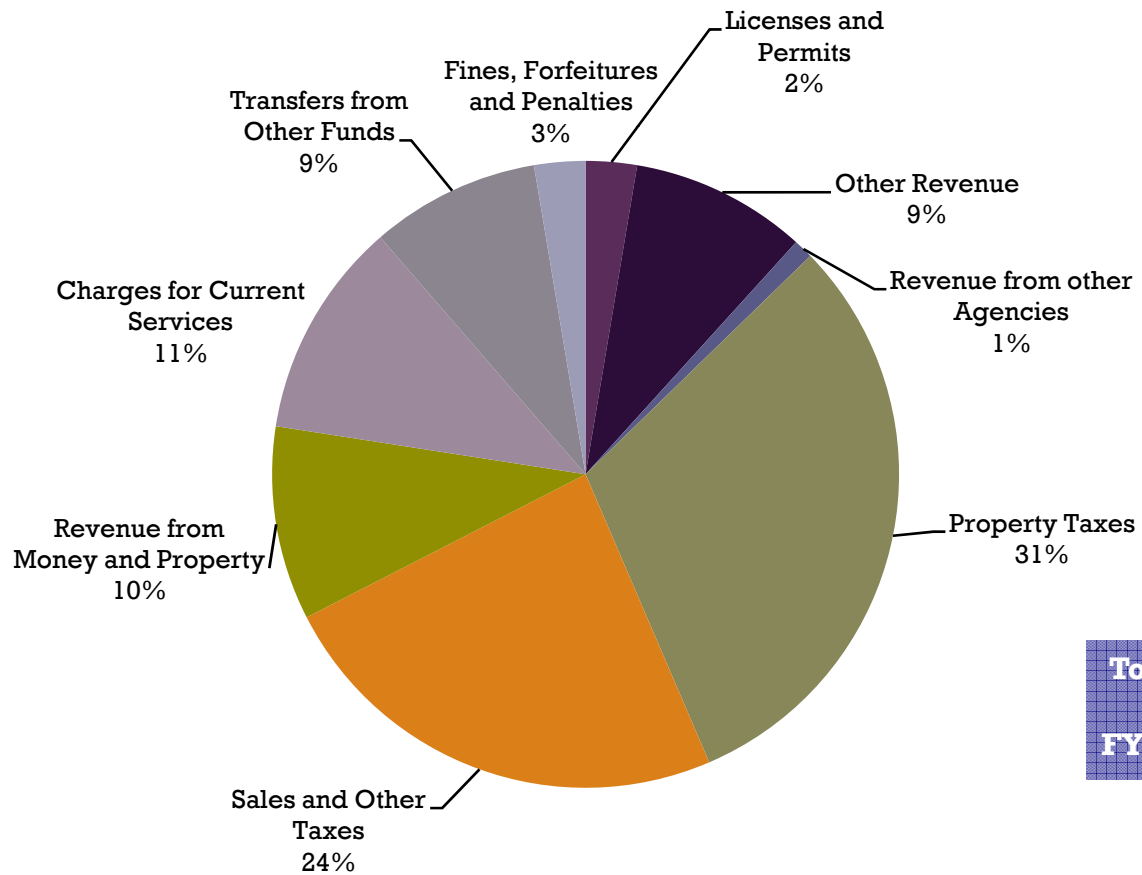
**Total City
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Where does the City's General Fund come from?

■ General Fund Resources FY 2010



Total General Fund Revenues for FY 10 = \$ 1.1 Billion



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Your municipal tax dollars at work

The diagram below depicts the General Fund **services** that are provided by the City of San Diego and how those services are funded by your tax dollar in Fiscal Year 2010.

11¢ Administration & Other Support Services
 Including Community & Legislative Services, Chief Financial Officer, and Mayor

18¢ Public Works
 Including Environmental Services i.e. trash collection and General Services i.e. street maintenance

52¢ Public Safety & Homeland Security
 Including Fire-Rescue, Police, and Office of Homeland Security

2¢ Land Use & Economic Development
 Including Development Services and Real Estate Assets



5¢ Non-Mayoral
 Including City Council and City Attorney

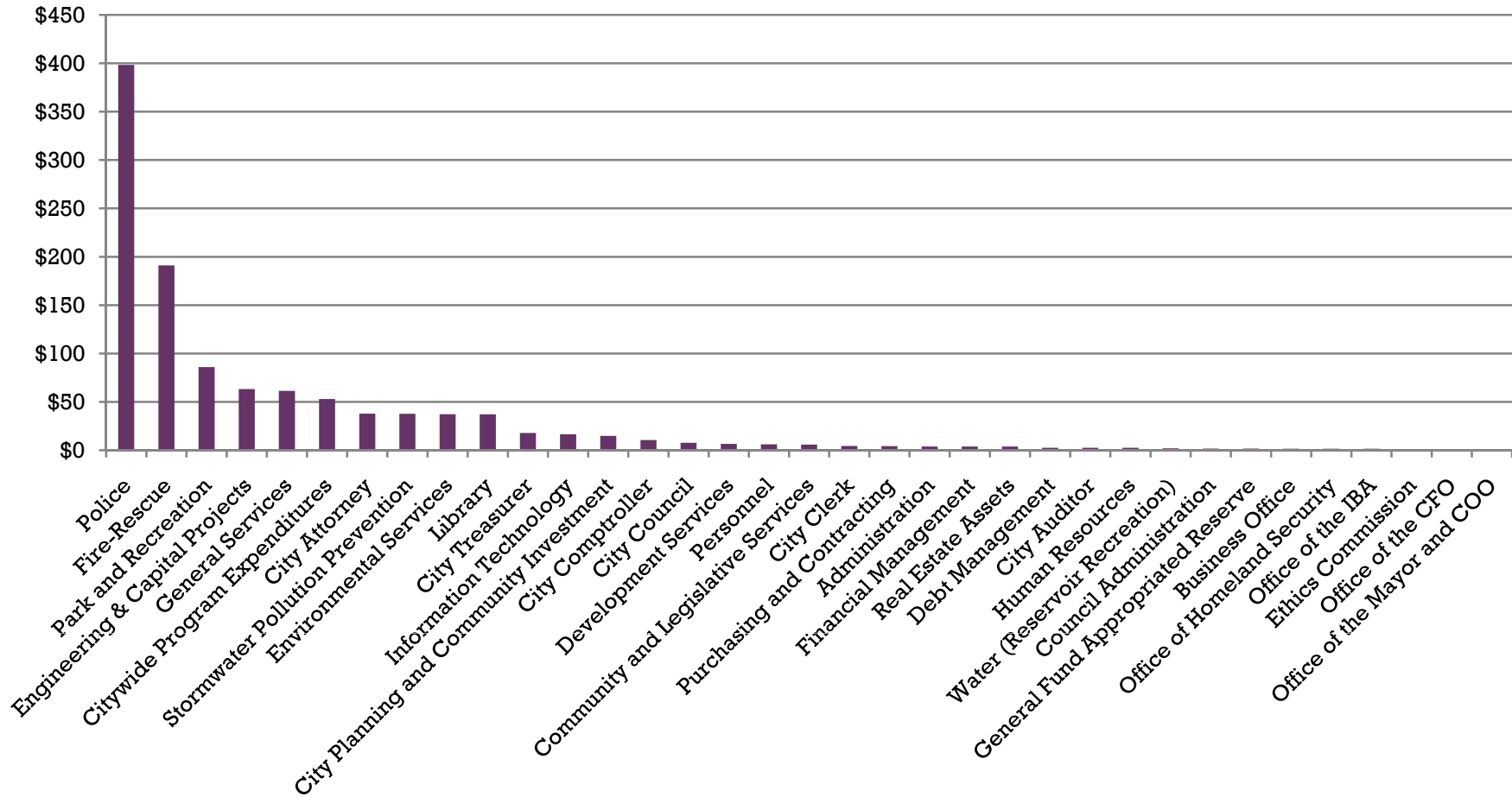
12¢ Community Programs
 Including Libraries and Park & Recreation



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Where does the City money go?

City of San Diego
 FY 2010 General Fund Budget by Department
 \$1,129,706,375





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Five-Year Financial Outlook

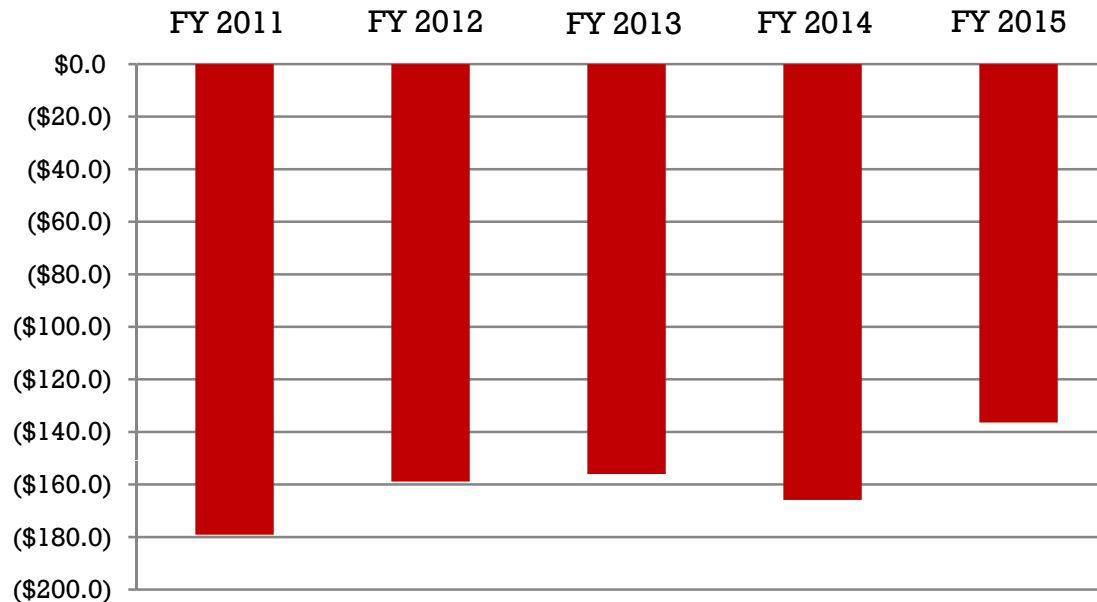
- On October 1, Mayor Sanders released the City of San Diego's updated five-year financial forecast covering 2011-2015.
- According to the Mayor, the budget deficit for the next fiscal year (FY 2011) is \$179 million—the largest gap in city history. The Independent Budget Analyst projects a \$200 million deficit.
- Facing a national economic recession driven by declining housing values, restrictive credit markets, slowed consumer spending and rising unemployment, the fiscal condition of the nation's cities continues to weaken. San Diego is not alone. Nearly nine in ten cities have reported that they are less able to meet fiscal needs in the upcoming year.



FY 2011–2015 Projected Shortfall

■ Deficits as far as the eye can see...

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Projected Revenues	\$1,061.6	\$1,094.1	\$1,125.4	\$1,156.8	\$1,196.6
Projected Expenditures	<u>\$1,240.7</u>	<u>\$1,253.0</u>	<u>\$1,281.4</u>	<u>\$1,322.7</u>	<u>\$1,333.0</u>
Forecasted Shortfall	(\$179.1)	(\$158.9)	(\$156.0)	(\$165.9)	(\$136.4)





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\$179.1 million deficit =

- ~16% of the City's General Fund budget (\$1.1 billion)
 - Imagine reducing your household budget by 1/6th ; OR
- Elimination of the City's Parks and Recreation (\$85.9 million), Engineering and Capital Projects (\$63.3 million) and Library Departments (\$37.1 million); OR
- Elimination of the entire Fire-Rescue Department (\$191.1 million); OR
- Elimination of ~2300 employees (out of ~7000 General Fund employees)



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Previous reforms initiated

■ Pension Reform and Employee Concessions

It is critical for the long-term fiscal health and stability of the City that adequate funding for the City's Retirement System is assured on an on-going basis.

- Voters approved Proposition B in November 2006, calling for voter approval of any future increases in pension benefits for City employees.
- The City approved a new retirement package (Defined Benefit/Defined Contribution Hybrid Plan) on July 25, 2008 for employees hired on or after July 1, 2009. This plan has generated immediate savings, and will ultimately save the city over \$23 million per year as compared to continuing the previous plan for new employees.
- The City has negotiated or imposed a revision to the crediting of interest to DROP accounts. This concession reduced the interest rate from 7.75% to 3.54% and in some cases delayed eligibility for DROP by five years. The fund will experience increased assets over time, reducing the UAAL by \$250-350 million over several years. This will also likely result in the City's ARC being \$2-3million lower in FY 2011 than it otherwise would be, and \$16-23 million lower in FY 2012.
- The City is currently challenging the vested nature of DROP benefits in court and a study to examine converting the retiree medical benefit from a defined benefit to defined contribution will be completed by next year. These reforms will reduce the City's unfunded liability in both the pension system and for retiree medical, and will subsequently lower the ARCs for both plans.



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Previous reforms initiated

■ More on Pension Reform and Employee Concessions

- In order to balance the FY 2010 budget, the City sought concessions from its labor organizations via contract negotiations. The 6% compensation reduction resulted in a citywide savings of \$43.8 million (\$32.9 million GF; \$10.9 million non-GF)
- Based on the terms and agreements with the City's five labor unions, changes have been made to the City's pension contributions. The City realized savings in the budget due to a reduction in the pick-up for most labor unions and unclassified and unrepresented employees. This helped the City to realize a savings of approximately \$12 million in the General Fund.
- Due to the salary freezes agreed to and imposed, it is anticipated that the unfunded liability in the pension system will decrease. This is because salary increases are assumed in the pension system's projections, which result in a higher liability due to higher expected pension pay-outs. When salary increases do not occur, the calculations are revised to reflect the lower liability. These concessions are preliminarily estimated to reduce the UAAL by \$100 million per year of salary freeze, and reduce the City's ARC by an estimated \$12 million per year in both FY 2011 and 2012.



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Previous reforms initiated

- Business Process Reengineering (BPR)
 - The City has completed or is in the process of completing 25 BPR studies and three efficiency studies. From FY 2007 to present, BPRs have resulted in reductions of a total of 401.32 budgeted full-time equivalent personnel.
 - Total efficiency and effectiveness savings: \$44.0 million
- User Fee Adjustments
 - City Council adopted a comprehensive User Fee Policy which ensures that User Fees are revised annually to achieve full cost recovery
 - Total annual revenue increase: \$6.5 million



Structural Budget Deficit

- A structural deficit is defined by a situation where ongoing expenditures consistently exceed ongoing revenues.
- Prior to the national economic recession, the City of San Diego faced a structural budget deficit. Since 2003, the City has endured significant budget reductions, employed the use of one-time solutions, and has scaled back services to balance annual budgets.

SERVICE LEVEL COMPARISONS FY 2001 - PRESENT

Activity	FY 2001	Present
# of Customer Service Centers	15	0
# of aquatic programs users	712,000	255,380
# of youth program after-school sites	37	15
Avg. # of weekly recreation center hours	62.3	40.25
Avg. # of weekly library hours	48	40.8
Firefighters per 100,000 population	80	71
Police Officers per 100,000 population	166	158
Avg. wait time (in seconds) to answer 911 calls	4	10



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Potential Solutions

■ Vacancy Savings

- The City currently has ~800 vacant positions, many of which are public safety positions
- Hiring Freeze in effect

■ Managed Competition

- Per Charter Section 117c, the core public safety services provided by police officers, firefighters, and lifeguards shall not be subject to Managed Competition.
- 54% of the General Fund goes toward public safety expenditures
- It is important to note that privatization will not eliminate the cost to provide services.

■ New Revenues

- Challenge: little political support and voter approval required
- Trash Fee, Storm Water Fee, Transient Occupancy Tax, Real Estate Transfer Tax



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Potential Solutions

■ Trash Fee

- San Diego is the only city in the county and the only major city in the state providing free trash services to certain residents*.

* Under the 1919 People's Ordinance, refuse from single family residences is collected by the City with no fee, while refuse from most businesses and multi-family residents must be collected by private refuse haulers, which charge service fees. The restrictions codified in the Ordinance include the inability of the City to enter private property to collect refuse and the requirement that refuse be placed at the curb line of public streets at designated times in approved containers. While the Ordinance does not detail the requirement for some residents to pay for trash collection while others receive trash collection for free, the practical implication and physical constraints placed on the City by the Ordinance results in inequity.

- A fee for trash services is currently estimated by the City's Independent Budget Analyst to be about \$10.60 per household per month.
- Annual General Fund Impact: \$55 million



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Potential Solutions

■ Storm Water Funding

- Unlike most large California cities, San Diego uses its General Fund as the primary funding source for most storm water programs.
- Over the last several years, General Fund expenditures on storm water-related activities have increased significantly as regulations under the Municipal storm water permit have increased and become more stringent.
- The City's current storm drain fee of \$0.95 per month (for single family residences) generates approximately \$6 million per year, in contrast to the \$48 million that was budgeted for storm water programs.



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Potential Solutions

- **Real Estate Transfer Tax**
 - San Diego has the lowest real estate transfer tax in California at 0.055%, compared to the 0.328% average of the ten largest California cities.
 - Potential new revenue if San Diego were to charge the average California rate: \$41.4 million.

- **Transient Occupancy Tax (TOT)**
 - The City of San Diego currently has a TOT of 10.5%, whereas San Francisco and Los Angeles have a TOT of 14%.
 - The average rate of the ten largest California cities is 12.4%
 - Only 1/6th of the revenue generated by the TOT actually goes into the City's General Fund.
 - Potential new revenue if San Diego were to charge the average California rate: \$9.9 million.



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Potential Solutions

■ Utility Users' Tax

- San Diego does not charge a Utility Users' Tax for the consumption of utility services.
- The average fee charged by the ten largest California cities is \$92 per person.
- Potential new revenue if San Diego were to charge the average California rate: \$112.6 million.



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What's next?

- On Nov. 24, Mayor unveiled his proposed FY10 budget amendments and FY11 General Fund budget.
 - FY10: Budget reduction of \$26.2 million, of which \$24.5 million is to be reduced from the General Fund; net elimination of 464.92 FTE positions.
 - FY11: The same reductions will be carried-forward into FY11, for a savings of \$160.3 million, of which \$154.6 million is to be reduced from the General Fund; net reduction of 530.97 FTE positions in Fiscal Year 2011.
 - The combined reductions will result in an 18-month savings of \$186.5 million for the General Fund and certain non-general funds.



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What's next?

- The City Council will hold a series of budget hearings.
 - On Dec. 8, the Independent Budget Analyst will address the Council and formally respond to the Mayor's budget proposals.
 - Also on Dec.8, the Budget and Finance Committee will convene at Joe and Vi Jacobs Center 404 Euclid Ave. San Diego, CA 92114 from 6-8 p.m. for *San Diego Speaks*.
 - The Council will deliberate on the budget proposals again on Dec. 9 at 9 a.m. and Dec. 14 at 2 p.m.
- Budget reduction plan could be adopted as early as Dec. 14, 2009 and implemented as early as Jan. 1, 2010.
- Newly formed Revenue Review and Economic Competitiveness Commission will begin meeting on Dec. 15.



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Please tell me...

- What are your top priority City services?
- What services do you think could be decreased partially or eliminated entirely?
- What additional revenue options would you support?



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Questions?