



City of San Diego

**CARL DEMAIO**  
CITY COUNCILMEMBER –DISTRICT 5

## MEMORANDUM

DATE: January 21, 2009  
TO: Mayor and City Council  
CC: Independent Budget Analyst  
FROM: Councilmember Carl DeMaio  
RE: Budget Priorities for FY 2010

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As the FY 2010 Budget Process begins, I appreciate the opportunity to share my budget priorities with my colleagues on the City Council. This memo also lays out the first of three proposals I will offer during this budget process to help balance the FY 2010 budget while putting the city back on a path of fiscal health. I am also looking forward to helping my colleagues find offsetting budget reductions to achieve budget priorities in their districts.

Instead of emphasizing district-specific priorities, this submission highlights my commitment to the restoration of the City's overall fiscal health. A city-wide view is key because the city as a whole faces a financial crisis that threatens the long-term sustainability of programs in each individual council district.

**Raising taxes and gutting city services are not the answers to our city's budget challenges.** As such I'd like to see the FY 2010 budget reflect four key priorities that collectively are designed to decrease the per-unit operating costs of our city government.

- **Salary Freezes and Furloughs:** Instead of targeting service levels for cuts (reducing library hours, closing recreation facilities, etc.) the City should commit to no raises nor step increases in the FY 2010 labor contracts. In addition, the labor contracts should include language granting the Mayor the authority to structure a program he sees fit to impose up to 96 hours of unpaid furloughs for individual employees during FY 2010. This authority would be granted for FY 2010 alone and would apply to all city employees with the exception of sworn police officers and active firefighters and lifeguards.

Cost savings from 48 hours of furloughs should be calculated into the budget projections for FY 2010, with the remaining 48 hours being used only if a mid-year deficit occurs—

and triggered completely at the discretion of the Mayor. Having language already negotiated and included as part of the labor contract will be key to implementing this cost-saving reform.

Including this provision in our FY 2010 budget and associated labor contracts will save up to **\$7.3 million**.

- **Reform Employee Fringe Benefits:** At the January 7<sup>th</sup> Budget and Finance Committee meeting, I presented data that broke down the costs of “Fringe Benefits” awarded to city employees (See Attachment 1). As a whole, the City’s Fringe Benefit rate is a whopping 61.28% of total payroll—nearly twice the national average fringe rate for state and local government.<sup>1</sup> I ask that the Mayor and City Council commit to reduce the fringe benefits packages awarded to city employees to bring our total costs in line with national averages.

In achieving savings under this priority, the Mayor and City Council should consider the following reforms:

- Reform of the employee “offset” retirement contributions<sup>2</sup> (**\$40.1 million in FY 2009**)<sup>3</sup>
- Reduction of the flat allowances for health care benefits (**\$59 million in FY 2009**)
- Elimination or reduction of the City’s SPSP contributions. (**\$24 million in FY 2009**)<sup>4</sup>

Depending on which mix of fringe benefit reforms are enacted, we can achieve **\$25-40 million** in savings in FY 2010 alone.<sup>5</sup>

In addition to the reforms above, the Mayor and City Council should commit to additional reforms in pension and retiree health benefits that will impact the costs for these benefits in FY 2010 and beyond. At the least, the Mayor and City Council should eliminate the DROP benefit for individuals not already enrolled in the program and reform the interest credited to DROP accounts to match a five year average CD rate.

- **Implement Managed Competition:** In 2006 San Diego voters clearly spoke to their elected leaders in mandating that the City utilize “managed competition” to achieve cost savings and performance improvements. Unfortunately, this reform has met strong

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<sup>1</sup> Bureau of Labor Statistics, “Employer Costs for Employee Compensation,” USDL 08-1271, September 10, 2008

<sup>2</sup> The vast majority of retirement plans feature a contribution from the employer (ie. The City) and the employee (city worker). The City of San Diego engages in the costly practice of paying a portion of the employee’s required contribution. This program is known as the retirement “offset” contribution.

<sup>3</sup> Consistent to a recent settlement with the Municipal Employees Association on this issue, should the City not be able to reform this benefit, additional salary and staff reductions would have to be made.

<sup>4</sup> The SPSP system was originally created to “replace” Social Security when the City opted out of the system in the 1980s. However, SPSP is no longer required by the IRS as the City’s defined benefit pension plan provides more than the required income to allow the elimination of SPSP in accordance with IRS guidelines.

<sup>5</sup> Includes General Fund, Enterprise Funds, Special Funds.

resistance from being implemented—some of it coming from the City Council itself. Not one taxpayer dollar has been subject to this voter-approved requirement. I ask that the City Council commit to a specific target of cost savings in the FY 2010 budget from implementation of managed competition. To not move forward with managed competition is a disregard for the will of the voters and inexcusable given the city's present financial crisis.

- Accelerate CCDC Payback of Redevelopment Dollars:** Redevelopment downtown under the Center City Development Corp. has been a stunning success. Over the years tax increment has been collected by CCDC to jumpstart development by subsidizing projects of specific interests. It is now time for CCDC to emphasize uses of its tax increment that serve the public interest.

CCDC's repayment of CDBG loans should be accelerated to begin in FY 2010—with proceeds from this repayment covering ADA projects in qualifying areas. This repayment strategy will free up scarce infrastructure dollars for bona fide deferred maintenance projects. In the coming weeks my office will research and share additional ideas on how CCDC can help serve the broader, public interest during this fiscal crisis.

<b>Proposed Expenditure Reductions: FY 2012</b>			
	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
Salary Freezes and Furloughs	\$3.65 M		
Reform "Offset" Contributions (1)	\$28.1 M	\$11.9 M	\$40 M
Reduction of flat allowances for health care benefits	\$3.5 M	\$1.5 M	\$5 M
Elimination or Reduction of SPSP contributions	\$16.9 M	\$7.1 M	\$24 M
	≈ \$52 M	≈ \$20 M	≈ \$69 M

*1 Consistent with a recent settlement with the Municipal Employees Association (MEA) on this issue, should the City now be able to reform this benefit, additional salary and staff reductions would have to be made.*

*2 Proportional Values for General Fund and other are archaically approximated using the proportion of General Fund positions in the FY 2009 adopted budget.*

As the budget process proceeds and we receive the Mayor's proposed FY 2010 budget, I will provide additional cost saving options to help balance our city's budget and restore its long-term fiscal health. I look forward to working with my colleagues throughout the coming year in incorporating each Councilmember's individual priorities in the ultimate budget we adopt.

CD/taa