Fiscal Recovery

The City of San Diego remains committed to restoring fiscal stability, addressing its financial obligations and meeting its responsibility to provide essential core services to San Diego residents. The Fiscal Year 2009 Annual Budget reflects this commitment and continues to enhance funding for eight significant areas of concern as described in the Mayor's Five-Year Financial Outlook. Prior to the Mayor taking office, these areas were either neglected or under-funded for many years, which affected the City's budget. The Five-Year Financial Outlook established funding for the following eight significant areas as a priority for the City's budget process:

- The City's Pension Plan
- The City's General Fund reserves
- The City's deferred maintenance and capital improvement needs
- The City's Retiree Health-Other Post Employment Benefits (OPEB)
- The City's obligations under Storm Water Runoff Permits
- The City's obligations under the Americans with Disabilities Act (ADA)
- The City's Workers' Compensation Fund reserves
- The City's Public Liability Fund reserves

The Fiscal Year 2009 Annual Budget also continues many other initiatives designed to help restore fiscal stability to the City. It protects the City's ability to deliver essential core services, continues the Business Process Reengineering effort, and will continue expansion of the voter-approved Managed Competition initiative.

Fiscal Recovery

Citywide Reorganization

The structure of the City continues to undergo a realignment intended to convert the City into a more efficient organization. These changes to the organization are expected to move the City toward fiscal recovery while allowing for better use of resources and promoting accountability. Reform efforts made in Fiscal Years 2007 and 2008 continue into Fiscal Year 2009 in order to streamline the City's organizational structure. For Fiscal Year 2009, a net reduction of 57.82 FTE positions is reflected in the budget.

Funding the Pension Plan

Ensuring adequate funding for the City's Retirement System is critical for the long-term fiscal health and stability of the City. In November 2006, voters approved the passage of Proposition B, the Mayor's initiative calling for voter approval of any future increases in pension benefits for City employees. In June 2007, the San Diego City Employees' Retirement System (SDCERS) released its 2007 actuarial valuation report for the City and determined that the City's Annual Required Contribution (ARC) for Fiscal Year 2009 was $161.7 million. This valuation applied the Entry Age Normal (EAN) method (calculating future actuarial liabilities beginning with the Fiscal Year 2007 valuation), assumed a 20-year Unfunded Actuarial Accrued Liability (UAAL) amortization period, and eliminated negative amortization. The ARC payment was transferred to the Retirement System in July 1, 2008.

Building Reserves

Building healthy reserves will help insulate City services against periodic swings in the economy, as well as demands placed upon the City to pay the costs of emergencies, such as natural disasters. In addition, since the City's reserves are one of several factors considered by rating agencies, a strong reserve balance may help lower the cost to the City to borrow money. The City currently maintains several reserves for its operations, including the Emergency Reserve for the General Fund, established to fund unanticipated liabilities for natural disasters, catastrophic occurrences, and judgments.

The City's reserve policy calls for the maintenance of adequate reserve levels for all of its reserves including the General Fund Emergency Reserve, the establishment of a General Fund Appropriated Reserve, enhanced reserves for Enterprise Funds such as Water and Wastewater, a capital reserve, as well as other types of reserves. The City's policy defines a goal of having a minimum of 8.0 percent of General Fund revenues held in reserves by Fiscal Year 2012. For Fiscal Year 2009, the reserve policy calls for 6.5 percent of General Fund revenues to be held in the General Fund reserves. The Fiscal Year 2009 Annual Budget includes $3.7 million to reach this policy target.

Funding Deferred Maintenance

Over the years, the City has undertaken several studies to catalog deferred maintenance needs for which no funding had been identified. It is estimated that the City's deferred maintenance and capital needs, excluding the Water and Wastewater enterprises, may be $800.0 to $900.0 million.

The City's deferred maintenance needs in Fiscal Year 2009 assumes that $31.8 million will be spent on facility repairs and improvements, $6.8 million of which will be paid in cash with the remaining $25.0 million being financed. Additionally, $73.7 million will be spent in Fiscal Year 2009 to address the deferred maintenance of the City's storm drains and streets. The City's formula for financing storm drain and street maintenance assumes that $21.2 million will be paid in cash with proceeds from Proposition 1B, of which $5.8 million is budgeted in the General Fund and the balance of $15.4 million is budgeted

in the Capital Improvements Program. The remaining $52.5 million of the City's streets and storm drain obligations will be financed. More information about the City's Proposition 1B allocation can be found in the Executive Summary section of this volume.

The Fiscal Year 2009 Annual Budget includes $109.1 million in total deferred maintenance and capital improvements funding to address new and ongoing projects, $28.0 million of which will be paid in cash and $77.5 million will be financed[1] and $3.6 million is budgeted for debt service.

Addressing Escalating Retiree Health Care Costs

The annual costs of the City retiree health care benefits, otherwise known as Other Post Employment Benefits (OPEB), are projected to increase substantially in future years. To address this need the OPEB is being more aggressively funded. The City entered into an agreement on January 18, 2008 with CalPERS Employer Retiree Benefit Trust (CERBT) to pre-fund expenses related to post-employment healthcare benefits. The plan, administered by CalPERS, requires pre-funding from the City in an amount not less than $5,000. The City budgeted $50.0 million in Fiscal Year 2009, which is comprised of $26.1 million for the annual retiree health benefits payments (pay-as-you-go) and $23.9 million for pre-funding retiree health care benefits which was transferred to CERBT on July 1, 2008.

Maintaining Compliance with Storm Water Runoff Permit

Compliance with the storm water runoff regulations associated with new permits has created a large impact on the City's budget. The Fiscal Year 2008 Annual Budget included $18.0 million to comply with the public education and monitoring requirements and in Fiscal Year 2009 the City will continue to comply with the regulations for the new storm water runoff permits. The Fiscal Year 2009 Annual Budget includes $27.5 million to comply with the public education and monitoring requirements.

Compliance with the Americans with Disabilities Act

The Americans with Disabilities Act (ADA) went into effect in 1990, requiring public and private agencies to make facilities and infrastructure universally accessible. ADA improvements are permanent improvements to public sidewalks and facilities and include additional capital projects such as the installation of audible signals at intersections.

[1] The City Attorney has raised some concerns over the legality of the proposed financing structure. The financing is expected to be implemented upon successful resolution of the legal concerns.

Fiscal Recovery

Beginning in Fiscal Year 2008, the City's Five-Year Financial Outlook called for an annual allocation of $10.0 million to begin funding ADA requirements. In Fiscal Year 2009, the City will fund projects to improve ADA compliance with sales of underperforming City-owned real estate assets in addition to existing Community Development Block Grant funding.

Building the Workers' Compensation Fund Reserve

Workers' Compensation liabilities are estimated to be approximately $161.0 million in filed claims, and the City needs to establish sufficient reserves to cover increases in these liabilities. By establishing an acceptable reserve level, the City will provide better protection against adverse impacts to General Fund services as a result of these liabilities. The Fiscal Year 2009 Annual Budget includes an annual contribution of $22.0 million of pay-as-you-go payment for Workers' Compensation claims as well as a $4.0 million contribution to the Workers' Compensation Fund Reserve to achieve the 15 percent goal of outstanding claims value.

Building the Public Liability Fund Reserve

Similar to Workers' Compensation liabilities, the City has public liabilities that fluctuate year over year. The public liabilities are currently estimated to be $114.0 million in filed claims. Any excessive payouts for public liability claims would create a negative impact on General Fund services. The establishment of a sufficient reserve would insulate General Fund services from a detrimental payout if the City were found liable in a claim. The Fiscal Year 2009 Annual Budget includes $10.0 million in new funding toward building the Public Liability Fund Reserve, an amount that is in addition to the annual pay-as-you-go allocation of $18.0 million for a total budgeted amount of $28.0 million. The $10.0 million reserve consists of a $5.0 million contribution, which is consistent with the Five-Year Financial Outlook, as well as an additional $5.0 million to replace reserves spent in Fiscal Year 2008. The Fiscal Year 2009 goal for Public Liability Reserve is 10 percent of outstanding claims value per the Reserve Policy.

Cumulative Budget Impact

The following table compares the projections in the Fiscal Years 2009-2013 Five-Year Financial Outlook with the Fiscal Year 2009 Annual Budget. The Fiscal Year 2009 Annual Budget provides funding for each of the eight significant areas and demonstrates the Mayor's continuing commitment to the implementation of the Five-Year Financial Outlook to restore and maintain the City's sound financial structure.

TABLE 1
TOTAL CITY CUMULATIVE BUDGET IMPACT
FUNDING FOR EIGHT SIGNIFICANT AREAS
(IN MILLIONS)

	FY 2009 Projected in Outlook		FY 2009 Annual Budget	
	All Funds	General Fund Amount	All Funds	General Fund Amount
ARC Plus (included in ARC payment)	$ 9.7	$ 9.7	(1)	
Reserves	$ 7.0	$ 7.0	$ 3.7	$ 3.7
Deferred Maintenance (2)	$ 29.7	$ 22.9	$ 31.6	$ 9.4
OPEB	$ 50.0	$ 34.0	$ 50.0	$ 35.2
Storm Water Runoff Compliance	$ 29.5	$ 29.5	$ 27.5	$ 27.5
ADA Compliance (3)	$ 10.0	$ -	$ 10.0	$ -
Workers' Compensation Fund Reserve	$ 5.0	$ 4.1	$ 4.0	$ 3.3
Public Liability Fund Reserve	$ 5.0	$ 5.0	$ 10.0	$ 10.0
SUB-TOTAL	**$ 145.9**	**$ 112.2**	**$ 136.8**	**$ 89.1**
Financed Capital Projects (4)	$ 77.5	$ -	$ 77.5	$ -
TOTAL	**$ 223.4**	**$ 112.2**	**$ 214.3**	**$ 89.1**

(1) The budgeted ARC payment includes $9.4 million to eliminate negative amortization and $13.1 million resulted from a change to a 20-year amortization schedule.
(2) The cash contribution to deferred maintenance has been budgeted as follows: $9.4 million in General Fund of which $3.6 million is allocated for debt service, and the remaining $22.2 million in the Capital Improvements Program Budget.
(3) $10.0 million for ADA compliance has been budgeted in the Capital Improvements Program Budget.
(4) The financed portion for deferred maintenance projects ($77.5 million) has been budgeted in the Capital Improvements Program Budget ($52.5 million for Streets & Storm Drains and $25.0 million for Facilities).

Corrective Actions Incorporated into the Fiscal Year 2009 Annual Budget

In order to achieve a balanced budget, several solutions recommended in the Mayor's Five-Year Financial Outlook have been implemented in the Fiscal Year 2009 Annual Budget.

Leveraging City Assets ($16.8 Million)

The Real Estate Assets Department has identified properties for sale that will generate one-time revenue. To comply with the City Charter, revenues generated from the sale of public property will be used for funding of capital improvement projects. In the Fiscal Year 2009 Annual Budget, incremental revenue of

$1.5 million from the sale of public property is included (over the Fiscal Year 2008 amount of $15.3 million) in the Capital Improvements Program Budget to fund ADA and capital improvements for City-owned facilities. The total Fiscal Year 2009 revenue projected to be received from the sale of public property is $21.8 million, but only $16.8 million has been included In the Fiscal Year 2009 Annual Budget.

Proposition 1B Funding ($21.2 Million)

Proposition 1B was approved by California voters in order to provide funding for local streets and roadway infrastructure. The Fiscal Year 2009 Annual Budget includes $21.2 million in Proposition 1B funds. Of these funds, $5.8 million is budgeted in the General Fund and $15.4 million is budgeted in the Capital Improvements Program budget. This amount will be used to fund the deferred maintenance and capital projects for streets and storm drains.

Federal Emergency Management Agency (FEMA), California Disaster Assistance Act (CDAA), Federal Highway Administration (FHWA), and the State of California Office of Emergency Services (OES) Reimbursements ($7.9 Million)

As a result of the wildfires that burned homes and infrastructure in various City communities, the City was faced with costs associated with fighting fires as well as rebuilding the affected areas. Costs were incurred in the General Fund for staffing in the Fire-Rescue and Police departments, for debris removal in Environmental Services, and for other City operations. The majority of these costs are eligible for reimbursement by the federal government through FEMA and the State through the CDAA. Reimbursements are estimated to be received from FEMA and the CDAA over the next two fiscal years. In addition, the Federal Highway Administration (FHWA) and the State of California Office of Emergency Services (OES) will reimburse the City for emergency work performed due to the Mt. Soledad landslide. The reimbursement will be for actual work performed for the restoration of Soledad Mountain Road and $2.0 million is budgeted to be received in Fiscal Year 2009. The Fiscal Year 2009 Annual Budget includes $7.9 million of the total reimbursement as a conservative projection of the reimbursements that are expected to be received by the City in Fiscal Year 2009.

General Fund Reimbursement for Special Promotional Programs ($7.5 Million)

The Fiscal Year 2009 General Fund budget includes $7.5 million for appropriate cost reimbursement for tourism promotional activities. This transfer will support miscellaneous activities such as Balboa Park events, maintenance of buildings in Mission Beach and La Jolla, and reimbursement for police services for special events. In addition, the full one cent of discretionary Transient Occupancy Tax has been transferred back to the General Fund according to the Municipal Code (section 35.0128) in the amount of $16.3 million for Fiscal Year 2009.

One-Time Revenues ($9.0 Million)

The Fiscal Year 2009 Annual Budget includes an additional $9.0 million in one-time revenues. These include revenues from the FEMA Brush Management Grant along with fund balance transfers from the Environmental Growth Fund, Seized and Forfeited Assets Fund, Concourse and Parking Garage Fund, and Pepsi Contract Fund. These revenues will offset one-time expenditures such as the additional amount budgeted for the Public Liability reserve, the lease payment for the police helicopters, the replacement of aging mobile computer terminals used by all sworn Police personnel, and others.

General Fund Budget Reductions ($23.3 Million)

The Fiscal Year 2009 General Fund Annual Budget includes the following budget reductions:

- Personnel expense and non-personnel expense (NPE) budget reductions totaling $17.5 million. The personnel expense reduction includes the elimination of 107.11 FTE positions from the General Fund. These reductions are further explained in the Service Impacts Section of this volume.
- Risk Management and the Office of the Chief Information Officer (OCIO) also participated in the savings reductions. Savings in these non-general fund departments reduced costs citywide, including in the General Fund. Rate reductions associated with the elimination of personnel expense (11.50 FTE positions), non-personnel expense, and the use of fund balances from these two departments resulted in General Fund savings of approximately $4.3 million.
- The City has made significant investments over the last few years to establish a four-year replacement schedule for desktop computers and general purpose laptops used by General Fund departments. Based on these developments, the City is reducing the PC replacement fund by $1.5 million for Fiscal Year 2009. The $874,000 in replacement funds proposed for Fiscal Year 2009 will enable the City to address required equipment replacements over the next year with manageable extensions to the four-year replacement schedule. During Fiscal Year 2009, the City will need to reevaluate funding requirements for Fiscal Year 2010 and beyond, considering planned General Fund staffing levels, equipment inventories, software and hardware capabilities, and information technology industry trends.

Conclusion

In Fiscal Year 2009, the City will continue to pursue fiscal recovery. In keeping with the City's goal of reducing structural budget gaps in coming years, the Mayor has reduced a net of 57.82 FTE positions citywide, creating a permanent savings solution that will positively impact future budgets. In addition to addressing future budget gaps, a total reduction of 107.11 FTE positions from the General Fund was necessary to balance the fund in Fiscal Year 2009.

The City is committed to preserving core services while fulfilling its financial obligations related to the eight significant areas, but in balancing the Fiscal Year 2009 Annual Budget some service impacts will be felt in areas not critical to the safety of the City's residents or to the basic operation of the City.