



Office of the Independent Budget Analyst

CITY OF SAN DIEGO  
CHARLES C. DAIL CONGRESS COURSE BUILDING  
CITY ADMINISTRATION

# City of San Diego Structural Budget Deficit



## Office of the Independent Budget Analyst

- The City is suffering from a ***structural budget deficit***
- Since FY03, significant budget cuts, service reductions, lack of new programs
- Unless action is taken, City services will continue to decline in the future



# Structural Budget Deficit

- Ongoing expenses  $>$  ongoing revenues
- Marked by persistence
- Often due to combination of increased services without increased revenue
- Require long-term, structural solutions



# Structural Budget Deficit

- Challenge: Budget must be balanced
  - No direct evidence of budget deficits
- Several indications:
  - Persistent budget deficits
  - Use of one-time solutions
  - Budget under-funding



# Persistent Budget Deficits

<u>Fiscal Year</u>	<u>FTE Reductions</u>	<u>Budget Reductions</u>
2003	(34.20)	(\$10.3 million)
2004	(143.66)	(\$28.4 million)
2005	(124.57)	(\$23.3 million)
2006	(209.55)	(\$23.0 million)
2007	-	(\$35.9 million)
2008	(259.69)	(\$16.0 million)
<b>TOTAL</b>	<b>(771.67)</b>	<b>(\$126.9 million)</b>



# Persistent Budget Deficits

- FY 2009 Budget
  - \$17.5 million in budget reductions
  - 107.11 FTE eliminated
  - \$7.5 million in RDA payment for PETCO bonds
  - \$10 million in State, Federal reimbursements
- FY 2009 First Quarter Adjustment
  - \$36.6 million in budget reductions
  - 146.95 FTE eliminated
  - \$5.6 million in one-times used to save libraries, recreation centers temporarily



# Persistent Budget Deficits

- FY 2010 Budget
  - \$31 million from FY09 reductions (146.95 FTE)
  - \$33 million from salary reductions
  - Significant use of one-time solutions
  - \$8 million in fee increases (incl. refuse hauler)
- FY 2010 Mid-Year Adjustment
  - \$179 million in budget solutions for FY 2011
  - 487.25 FTE eliminated
  - Approx. \$75 million in one-time solutions



# One-Time Solutions

- Transfers from Environmental Growth Fund
- Transfer from Vehicle Replacement Fund
- Transfer from State Contingency Reserve
- Sales tax accrual adjustment
- Transfer from Fire & Lifeguard Facility Fund
- Transfer of TSR from Central Library
- Loan repayment from Redevelopment
- Release of encumbrances, inactive fund balances
- Cal American Franchise Fee
- Transfer from IT New Development Fund





## One-Time Solutions (cont.)

- Rebate from Storm Drain Fund
- Rebate from Naval Training Center
- Rebate from VLF Securitization
- Rebate from QUALCOMM Stadium Fund
- Use of PETCO Park Fund balance
- Transfer from PC Replacement Fund
- Transfer of Y2K Fund
- Employee offset savings
- Land sales



## One-Time Solutions (cont.)

### FY 2009 & FY 2010

- State, Federal reimbursements
- IT Fund balance transfer
- RDA payment for PETCO bonds
- Internal Stabilization Reserves
- Library System Improvement Fund
- Trolley Extension Reserve Fund
- Preferred disposal rate for City tons
- Restructure McGuigan Settlement payments
- Reserves Holiday
- Transfer from De Anza Operating Fund



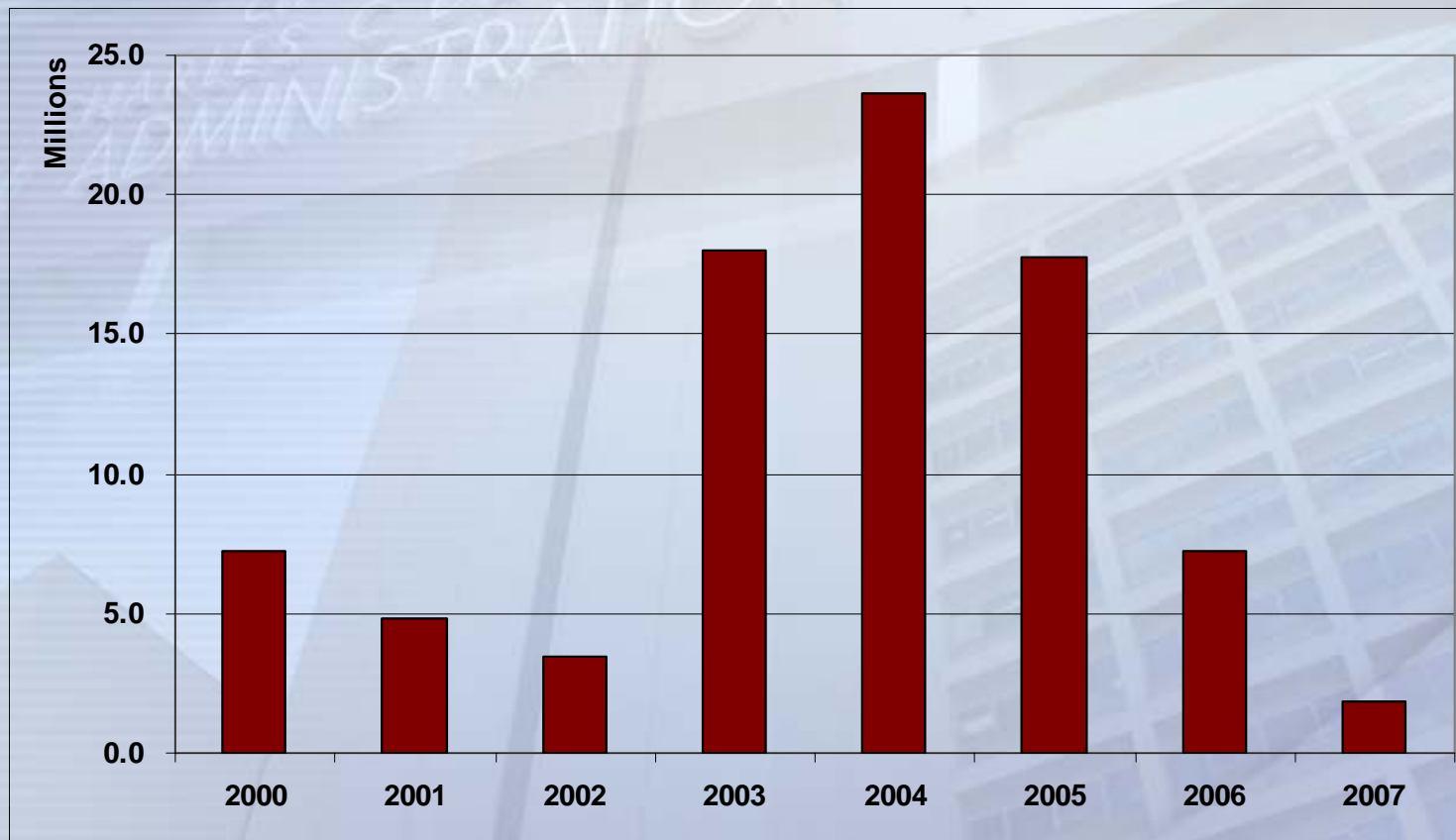
## Budget Under-Funding

- One of underlying causes of SBD
- Results from increased programs & services without increased revenue
- Insufficient resources to adequately fund all expenditure commitments
- Departments expected to absorb cost increases by shifting resources



# Budget Under-Funding

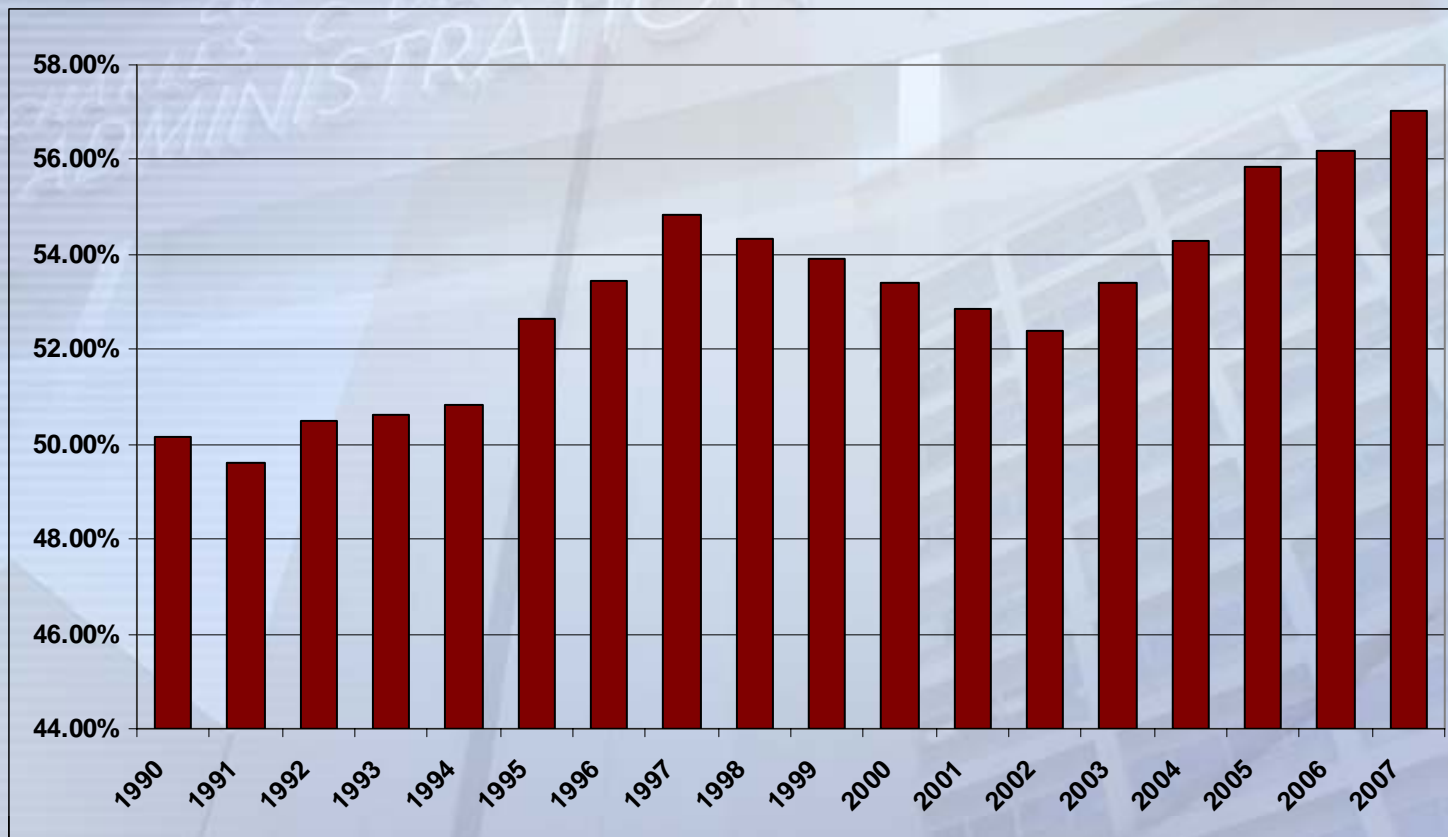
## Police and Fire Department Over-Budget Expenses





# Other Measures

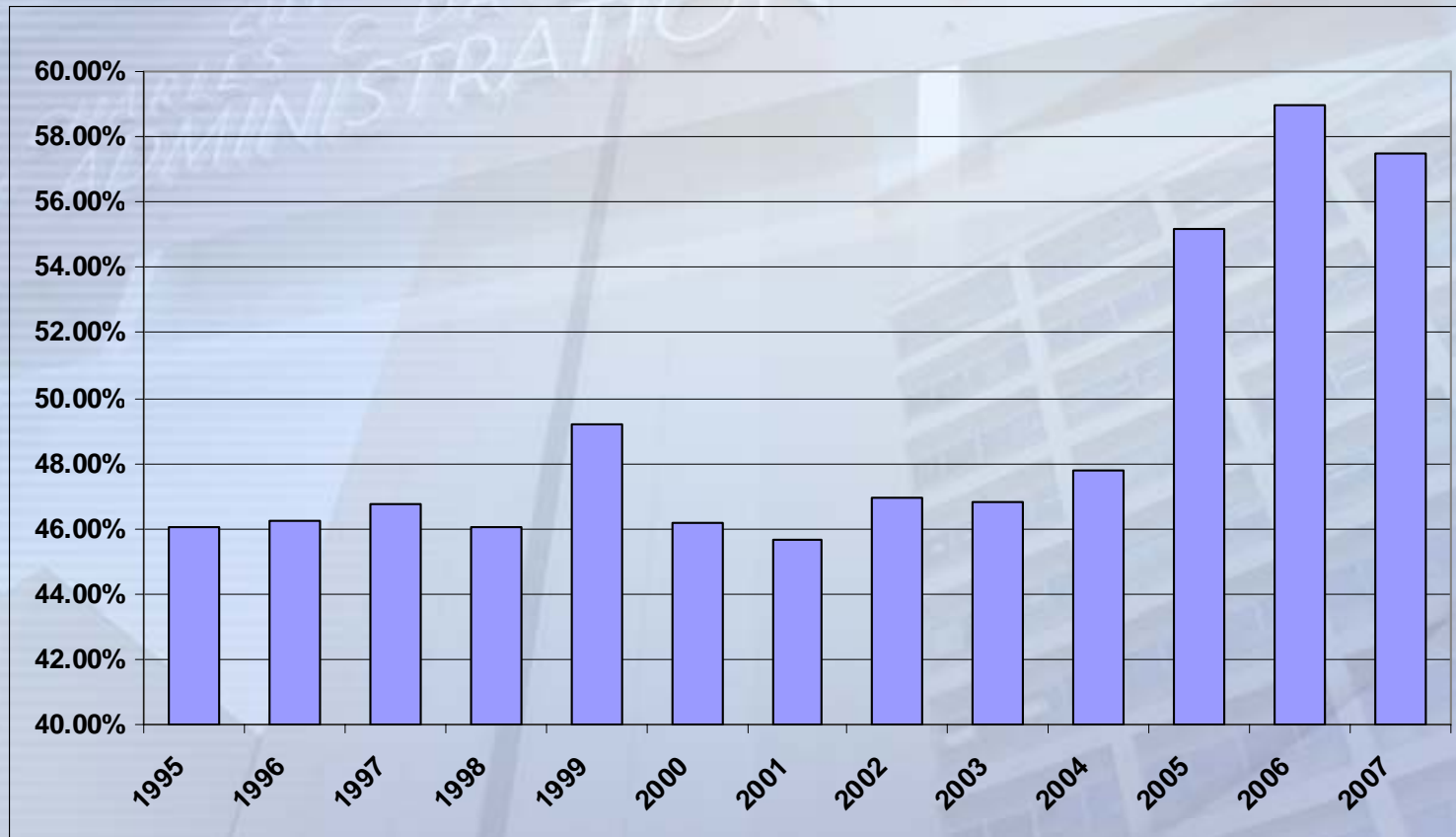
Public Safety Expenditures as % of total General Fund





# Other Measures

Property and Sales Tax as % of total General Fund





# Impact of Structural Deficit

- Persistent consequences
- Significant prior service level reductions
- Likely to continue in future absent corrective action



# Impact of Structural Deficit

## Significant GF Budget Reductions, FY03 – FY06

<u>Department</u>	<u>FTE Reductions</u>	<u>Budget Reductions</u>
Police	(72.75)	(\$16.4 million)
Park & Recreation	(164.01)	(\$11.9 million)
Community & Econ. Develop.	(21.65)	(\$10.4 million)
Library	(61.73)	(\$7.0 million)
Citywide Program Expenditures	(3.00)	(\$4.8 million)
Fire-Rescue	(4.00)	(\$4.5 million)
Planning	(25.00)	(\$3.8 million)
General Services	(29.75)	(\$3.2 million)
<b>TOTAL</b>	<b>(381.89)</b>	<b>(\$62.0 million)</b>





# Impact of Structural Deficit

- Reduced Recreation Center hours, youth programs, park maintenance, range patrols, equipment replacement
- Closure of swimming pools during winter months, certain after school sites
- Reduction in Central library hours, branch library hours, Sunday service hours, library support staff, materials funding
- Reduced funding for “6 to 6” program, other social service programs
- Closure of Community Service Centers , police storefronts
- Reduction in community revitalization services
- Reduction of civilian administrative support staff for Police Dept.
- Reduction of Community Service Officers
- Reduction in General Fund facility maintenance
- Reduction in City Planning staff and support for General Plan, Community Planning Program, MSCP



## Impact of Structural Deficit

- FY 2007 and 2008 service impacts unclear
  - FY07: Budgeting of supplemental FTE, use of vacancy savings
  - FY08: Reduction of positions due to vacancy, BPR
- Baseline service levels already sharply eroded
- *Implicit* service impacts: no service restorations, new or enhances services



# Impact of Structural Deficit

## 2004 Unfunded Needs Report

<u>DEPARTMENT</u>	<u>UNFUNDED NEED</u>
Fire-Rescue	\$38.0 million
Police Department	\$87.1 million
Park & Recreation	\$81.1 million
Library Department	\$14.2 million
General Services	\$33.7 million
Other General Fund	\$20.1 million
<b>Total General Fund</b>	<b>\$274.2 million</b>



# Impact of Structural Deficit

## Fiscal Year 2009

- Delayed street & facility maintenance
- Reduction in park maintenance
- Elimination of weekday overnight camping at Kumeyaay Campground
- Elimination of extra summer refuse collection in Mission Beach
- Elimination of Customer Service Department
- Cancellation of Police and Fire academies
- Elimination of skate park supervision
- Reduction in hours at gyms and activity centers
- Elimination of competitive level swim team
- Elimination of power washing and cleaning Ocean Beach Pier
- Reduction in funding for Storm Water Department



# Impact of Structural Deficit

## Fiscal Year 2010

- Implementation of rolling “brown-outs” for eight fire stations
- Reduction of lifeguard service at Torrey Pines & Windansea Beaches
- Cancellation of Fire academies
- Reduction of Mounted Enforcement program, canine operations
- Reduction of Harbor Patrol Unit, Code Compliance Officers
- Reduction in Police civilian positions
- Reduction in all branch library hours from 41 to 36 hours per week
- Reduction in central library hours from 56 to 44 hours per week
- Reduction in park and sports turf maintenance
- Elimination of turf fertilization, street median maintenance and fire ring program
- Reduction in tree trimming and maintenance
- Delay in historic district designations



# Five-Year Financial Outlook

January 2008

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	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Total Revenues	\$ 1,163.6	\$ 1,212.8	\$ 1,238.3	\$ 1,285.7	\$ 1,323.1
Total Expenses	<u>1,195.6</u>	<u>1,279.0</u>	<u>1,323.6</u>	<u>1,361.5</u>	<u>1,373.1</u>
<b>Surplus/(Deficit)</b>	<b>\$ (32.0)</b>	<b>\$ (66.2)</b>	<b>\$ (85.3)</b>	<b>\$ (75.8)</b>	<b>\$ (50.0)</b>

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# Five-Year Financial Outlook

October 2009

	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
Total Revenues	\$ 1,061.6	\$ 1,094.1	\$ 1,125.4	\$ 1,156.8	\$ 1,196.6
Total Expenses	1,240.7	1,253.0	1,281.4	1,322.7	1,333.0
<b>Surplus/(Deficit)</b>	<b>\$ (179.1)</b>	<b>\$ (158.9)</b>	<b>\$ (156.0)</b>	<b>\$ (165.9)</b>	<b>\$ (136.4)</b>



# IBA: Risks to Outlook

	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
<b>Five-Year Outlook Projected Deficit</b>	\$ (179.1)	\$ (158.8)	\$ (155.9)	\$ (165.9)	\$ (136.5)
<b>Risks</b>					
<b>Revenue Scenarios</b>					
Property Tax	\$ (11.6)	\$ (19.4)	\$ (27.6)	\$ (32.5)	\$ (37.7)
TOT	\$ (3.0)	\$ (3.1)	\$ (3.2)	\$ (3.3)	\$ (3.4)
<b>State Impacts</b>					
Gas Tax	\$ -	\$ (23.1)	\$ (23.1)	\$ (23.1)	\$ (23.1)
<b>Expenditures</b>					
Potential Salary Increases	\$ -	\$ (6.3)	\$ (12.7)	\$ (25.8)	\$ (38.4)
Retiree Health PAYGO Estimates	\$ (7.2)	\$ (8.2)	\$ (9.2)	\$ (10.4)	\$ (11.4)
New Storm Water Regulations	TBD	TBD	TBD	TBD	TBD
Emergency Operations Center Relocation	TBD	TBD	TBD	TBD	TBD
<b>Total:</b>	\$ (200.9)	\$ (218.9)	\$ (231.7)	\$ (261.0)	\$ (250.5)





# Correcting the Structural Deficit

- Begins with a vision – What do we want this City to be?
- Community involvement and participation
- Honesty about the true cost of services, understanding the tradeoffs



# Correcting the Structural Deficit

- Solutions must be broad and long-term
  - “Structural problems require structural solutions”
- Expenditure reductions should be targeted and focused
- Adequately fund services and programs determined to be critical and desirable



## City of San Jose Model

- Goal to eliminate structural budget deficit within three years
- City Manager's General Fund Structural Deficit Task Force
  - Reviewed budgetary and economic conditions
  - Solicited input from stakeholders on potential solutions
  - Conducted employee and community surveys
  - Performed “best practices” benchmarking
- 200 strategies emerged; 100 met criteria for further analysis



# City of San Jose Model

- After extensive review, 21 priority strategies identified in four major categories:
  - Revenue Strategies
  - Service Delivery Model Changes
  - Expenditure Controls
  - Service Reductions
- Also developed 12 budget principles to help prevent future structural deficits
- Mayor's Budget Shortfall Advisory Group to bring forward recommendations



## Conclusion

- The City of San Diego is suffering from a Structural Budget Deficit
- This structural imbalance has been persistent, resulting in significant service reductions
- Deficits are likely to continue well into the future
- Corrective action must be taken to ensure that community vision for the City is achieved



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