

FISCAL YEAR 2018

Citywide Budget Overview



The City of
SAN DIEGO

ADOPTED BUDGET

MAYOR KEVIN L. FAULCONER

Citywide Budget Overview

The City of San Diego's Fiscal Year 2018 Adopted Budget of \$3.64 billion is comprised of five operating fund types and the Capital Improvements Program (CIP):

- General Fund;
- Special Revenue Funds;
- Capital Project Funds;
- Enterprise Funds;
- Internal Service Funds; and
- Capital Improvements Program

Table 1 shows the change in expenditures from Fiscal Year 2016 to Fiscal Year 2018 by fund type/program.

Table 1: Total City Expenditure Changes Fiscal Years 2016 - 2018 by Fund Type/Program

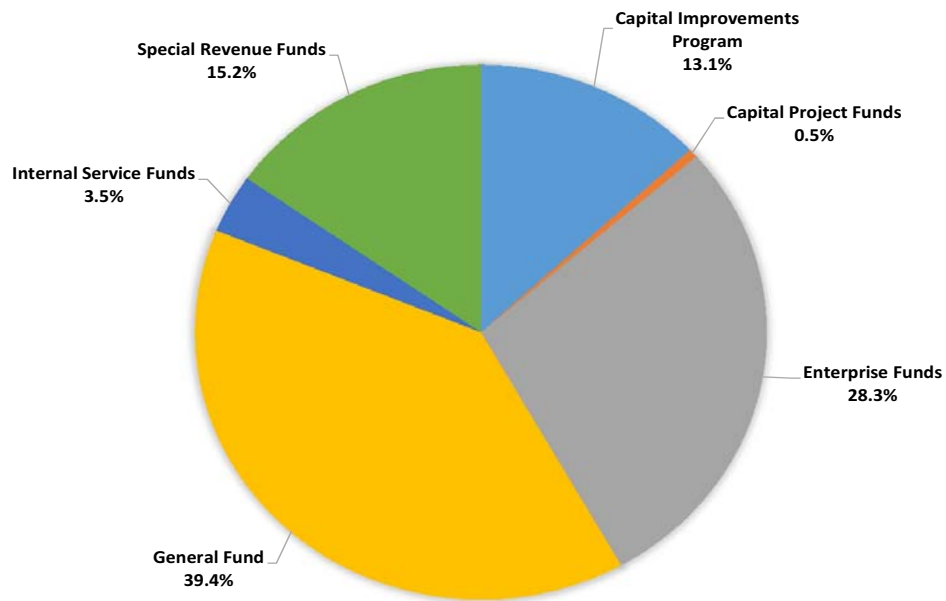
Fund Type	FY 2016 Actual	FY 2017 Adopted Budget	FY 2018 Adopted Budget	FY 2017 - FY 2018 Change	Percent Change
General Fund	\$ 1,306,613,275	\$ 1,337,981,387	\$ 1,433,823,658	\$ 95,842,271	7.2%
Special Revenue Funds	438,345,075	506,907,275	555,299,448	48,392,173	9.5%
Capital Project Funds	13,819,481	13,266,509	19,371,372	6,104,863	46.0%
Enterprise Funds	876,370,169	990,795,000	1,029,151,055	38,356,055	3.9%
Internal Service Funds	104,544,279	117,863,607	129,282,569	11,418,962	9.7%
Capital Improvements Program	398,298,994	420,996,485	475,643,273	54,646,788	13.0%
Total	\$ 3,137,991,274	\$ 3,387,810,263	\$ 3,642,571,374	\$ 254,761,111	7.5%



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Figure 1 displays the Fiscal Year 2018 Adopted Expenditure Budget by Fund Type/Program.

Figure 1: Fiscal Year 2018 Adopted Expenditure Budget by Fund Type/Program



Note: Numbers may not add to 100% due to rounding.

Table 2 presents the changes in revenues from Fiscal Year 2016 to Fiscal Year 2018 by fund type.

Table 2: Total City Revenue Changes Fiscal Years 2016 - 2018 by Fund Type

Fund Type	FY 2016 Actual	FY 2017 Adopted Budget	FY 2018 Adopted Budget	FY 2017 - FY 2018 Change	Percent Change
General Fund	\$ 1,298,817,121	\$ 1,329,961,580	\$ 1,407,748,305	\$ 77,786,725	5.8%
Special Revenue Funds	491,931,686	501,370,551	546,496,168	45,125,617	9.0%
Capital Project Funds	56,135,740	32,297,000	32,473,000	176,000	0.5%
Enterprise Funds	1,036,833,339	1,128,850,828	1,260,673,364	131,822,536	11.7%
Internal Service Funds	104,129,196	110,909,376	112,558,726	1,649,350	1.5%
Total ¹	\$ 2,978,847,081	\$ 3,103,389,335	\$ 3,359,949,563	\$ 256,560,228	8.3%

¹Operating revenue may be less than operating expenditures due to the use of fund balance in excess of reserves.

Expenditure Overview by Fund Type/Program

General Fund

Departments within the General Fund provide core community services, such as public safety (including police/fire protection and life safety), parks and recreation, library services, and refuse collection, as well as vital support functions such as finance, legal, and human resources. These core services are primarily supported by major revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees. The City's Fiscal Year 2018 Adopted Budget reflects General Fund expenditures totaling \$1.43 billion, which is an increase of \$95.8 million or 7.2 percent from the Fiscal Year 2017 Adopted Budget. Detail on the total net increase in the General Fund is described in the General Fund Expenditures section of this Volume.



Capital Project Funds

Capital Project Funds are primarily used for the acquisition or construction of major capital facilities. These funds typically make up a small portion of the overall CIP, which can be supported by all fund types. The Fiscal Year 2018 Adopted Budget for Capital Project Funds is \$19.4 million, which is an increase of \$6.1 million or 46.0 percent from the Fiscal Year 2017 Adopted Budget. This increase is primarily due to a one-time reallocation of debt service payments for deferred capital bonds from the General Fund to the Capital Outlay Fund.

Special Revenue Funds

Special Revenue Funds account for revenues that are received for specifically identified purposes. The two largest special revenue funds are Transient Occupancy Tax (TOT) and Engineering & Capital Projects. The Fiscal Year 2018 Adopted Budget for Special Revenue Funds is \$555.3 million, representing an increase of \$48.4 million or 9.5 percent from the Fiscal Year 2017 Adopted Budget. This net increase is primarily due to the following adjustments:

- \$17.8 million in the newly created Infrastructure Fund as a result of implementing Charter Section 77.1;
- \$8.0 million in the newly created Road Maintenance and Rehabilitation Fund for road repairs due to the allocation from Senate Bill 1;
- \$6.6 million in the Engineering & Capital Projects Fund to support the CIP;
- \$4.8 million in the Gas Tax Fund primarily due to Senate Bill 1 and revised Gas Tax projections;
- \$2.7 million in the Successor Agency Administration and Project - CivicSD Fund to reflect Successor Agency activities performed by Civic San Diego;
- \$2.7 million in the General Plan Maintenance Fund to support Community Plan Updates; and
- \$1.8 million in the Concourse and Parking Garages Operating Fund related to a transfer of fund balance to the General Fund.

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Enterprise Funds

Enterprise Funds account for specific services that are funded directly through user fees. These funds include Water, Sewer, Development Services, Refuse Disposal, Recycling, Golf Course, and Airports. Typically, these funds are intended to be fully self-supporting and are not subsidized by the General Fund. The Fiscal Year 2018 Adopted Budget for all Enterprise Funds is \$1.03 billion, representing an increase of \$38.4 million or 3.9 percent from the Fiscal Year 2017 Adopted Budget. This net increase is primarily due to the following adjustments:

- \$5.5 million in the Water Utility Operating Fund for water purchases from the San Diego County Water Authority;
- \$5.3 million in the Water and Sewer Funds for programmatic wastewater pipeline condition assessments;
- \$4.1 million in the Development Services Fund for the reimbursement to the General Fund for the use of the 101 Ash Street building;
- \$3.4 million in the Water Utility Operating Fund for the reimbursement of reclaimed water revenues to the Metropolitan Utility Fund;
- \$3.3 million in the Water Utility Operating Fund to support the Commercial Paper Program;
- \$1.6 million in the Development Services Fund related to a penalty from the Regional Water Quality Control Board;
- \$1.5 million in the Refuse Disposal Fund for the replacement of the HVAC system at the Ridgehaven facility;
- \$1.4 million in the Development Services Fund for office relocation costs into 101 Ash St. building;
- \$1.3 million in the Recycling Fund for the purchase of greenery and recycling collection vehicles;
- \$1.2 million in the Water Utility Operating Fund for habitat restoration;
- \$870,000 in the Water and Sewer Funds for wastewater planning to assess operational efficiencies at wastewater facilities;
- \$850,000 in the Water Utility Operating Fund for consulting services for groundwater support;
- \$750,000 in the Water Utility Operating Fund for filter replacement at the Otay Water Treatment Plant;
- \$725,544 in the Refuse Disposal Fund associated with leased equipment at the Miramar Landfill; and
- \$650,000 in the Water Utility Operating Fund for meter replacements to conduct flow meter testing.

Internal Service Funds

Internal Service Funds support the City's internal operations on a cost-reimbursable basis. The Fiscal Year 2018 Adopted Budget for Internal Service Funds totals \$129.3 million, which is a net increase of \$11.4 million or 9.7 percent from the Fiscal Year 2017 Adopted Budget. This net increase is primarily due to the following adjustments:

- \$7.0 million in the Fleet Services Operating Fund for rent, building modifications, and tenant improvements for a new fire fleet repair facility;

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- \$5.3 million in the Fleet Services Replacement Fund for planned replacement of the City's fleet;
- Reduction of \$3.4 million in the Central Stores Fund as a result of water meter purchases occurring in the Water Utility Operating Fund; and
- Reduction of \$1.4 million in the Fleet Services Operating Fund to reflect revised gasoline and other motor fuel costs.

Capital Improvements Program

The CIP budget allocates available revenue to rehabilitate, restore, improve, enhance and increase the City's capital facilities. This fiscal year's budget is comprised of various funding sources, such as sewer and water rate fees, a one half-cent local sales tax for transportation improvements (TransNet Extension), Mission Bay lease revenue, and other City enterprise funds. The Fiscal Year 2018 Adopted CIP Budget totals \$475.6 million. This is an increase of \$54.6 million, or 13.0 percent, from the Fiscal Year 2017 Adopted CIP Budget of \$421.0 million, primarily due to an increase in Public Utilities Department Enterprise Fund projects for Pure Water.



The CIP budget projects *Anticipated* funding in the CIP project pages. For Fiscal Year 2018, a total of \$327.4 million in anticipated funding for CIP projects is included but will not be appropriated in the Fiscal Year 2018 Adopted Budget. Anticipated funding includes a variety of funding such as commercial paper, lease revenue bonds, donations, grants, developer funding, and Facilities Benefit Assessments. As anticipated sources of funds are received, a separate Council action will be brought forward to appropriate any anticipated funding during Fiscal Year 2018.

Citywide Reorganization/Restructuring

The Fiscal Year 2018 Adopted Budget reflects the restructuring of several departments and programs as a result of executive management decisions and department-initiated reorganizations. Reorganizations include restructuring of departments and major divisions within a department and are intended to increase the overall efficiency and effectiveness of City operations. The following provides an overview of significant changes to the City's organizational structure that are included in the Fiscal Year 2018 Adopted Budget.

Human Resources Functions Consolidation

Human resources functions performed in the Library, Fire-Rescue, Public Works, and Public Utilities Department have been transferred to the Human Resources Department. These functions have been centralized to increase the efficiency of human resource services provided to all departments.

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Successor Agency Administration and Project - CivicSD Fund

Successor Agency Administration and Project - Civic SD Fund is a new fund in Economic Development to improve budgeting and oversight of Successor Agency activities performed by Civic San Diego on behalf of the City.

General Plan Maintenance Fund

General Plan Maintenance Fund is a new fund in the Planning Department to support the budgeting and monitoring of long-range planning, General Plan amendments, and Community Plan Updates.

Infrastructure Fund

The Infrastructure Fund was established per Section 77.1 of Article VII of the City Charter to be a dedicated source of revenue to fund General Fund infrastructure. The Infrastructure Fund is used exclusively for “the acquisition of real property, construction, reconstruction, rehabilitation, repair, and maintenance of infrastructure,” including associated financing and personnel costs. Infrastructure benefiting from this fund is typically managed and maintained by asset-managing General Fund departments.

Road Maintenance and Rehabilitation Fund

Road Maintenance and Rehabilitation Fund was created due to the Road Repair and Accountability Act of 2017 (SB-1) which addresses the funding shortfall that currently exists for the maintenance of State and local roadways. The Road Maintenance and Rehabilitation Fund collects revenue from an additional 12 cent per gallon tax on gasoline and 20 cent a gallon tax on diesel, in addition to new fees charged on vehicles, starting in Fiscal Year 2018. Receipt of these funds are dependent on the City meeting State mandated minimum road funding standards.

Summary of Adjustments in the Fiscal Year 2018 Adopted General Fund Budget

On November 9, 2016, the Mayor released the Fiscal Year 2018-2022 Five-Year Financial Outlook (Outlook), which projected expenditures exceeding revenue by \$36.9 million in Fiscal Year 2018 for the General Fund. Consistent with the Outlook, the Fiscal Year 2018 Adopted Budget reflects expenditures outpacing revenue growth, primarily due to increases in the City’s Actuarially Determined Contribution (ADC) to the pension system, a new City Charter requirement to dedicate certain revenue sources for a newly created Infrastructure Fund (Charter Section 77.1), and funding for the addition of critical strategic expenditures. These General Fund expenditure obligations are mitigated through the use of the Pension Payment Stabilization Reserve for the intended purpose, available excess reserves, operating budget reduction proposals, and the use of Excess Equity. Each of these adjustments are described in detail below.

Actuarially Determined Contribution (ADC)

On September 9, 2016, the SDCERS Board of Administration (Board) approved a 2010-2015 Study of Plan Experience (Study) prepared by Cheiron. The Study involved historical analysis of pension plan assumptions, including economic assumptions (i.e. rate of investment return and salary



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inflation), and demographic assumptions (i.e. retirement and mortality rates.) The SDCERS actuary made several recommendations to the Board regarding the new actuarial assumptions based on the Study. The most significant recommendation was to adopt updated public sector mortality tables and a new method to project mortality which increased the City's plan unfunded actuarial accrued liability (UAAL) by \$444.3 million (Citywide) to a total of \$2.56 billion.

Economic assumptions recommended in the Study include maintaining the discount rate of 7.0 percent approved by the Board in 2015, an inflation rate of 3.05 percent, wage inflation of 0.0 percent for Fiscal Year 2015 through Fiscal Year 2018, cost-of-living increases assumed to be 1.9 percent per annum compounded. Changes to actuarial demographic assumptions recommended in the study were related to fewer retirements, terminations, and disabilities based on the observed experience of plan participants.

The Study provided several options to the SDCERS Board to incorporate the new mortality assumptions. The SDCERS Board approved all actuarial assumption changes in the study, including the new mortality tables and mortality projection method, but did not approve a "phased-in" approach to smooth the related increases to the ADC.

Based on assumptions accepted by the Board, Cheiron prepared the City's Actuarial Valuation Report as of June 30, 2016, which includes the City's ADC for Fiscal Year 2018. The pension payment for the General Fund is \$236.4 million, an increase of \$45.2 million from Fiscal Year 2017 Adopted Budget. The components contributing to the increase in the pension payment for the General Fund are estimated below:

- New Demographic Assumptions (Mortality changes): \$30.2 million
- Investment Loss: \$6.5 million
- Discount Rate and Inflation Rate Reduction: \$4.8 million
- Liability Experience Loss: \$3.7 million

This unanticipated increase in the General Fund's pension payment is partially mitigated through the use of \$16.0 million of the Pension Payment Stabilization Reserve. The use of the Pension Payment Stabilization Reserve funds is described later in this section.

Infrastructure Fund (Charter Section 77.1)

On June 7, 2016, voters approved Proposition H, requiring the City to dedicate specific sources of revenue to fund new General Fund infrastructure, such as streets, sidewalks, bridges, buildings, and the maintenance and repair of such infrastructure.

The calculation to fund the new Infrastructure Fund is based upon the following:

- Major Revenues Increment – amount equal to 50.0 percent of the year over year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees for Fiscal Year 2018 through Fiscal Year 2022
- Sales Tax Increment – an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline of Fiscal Year 2016 actual receipts, inflated annually by the lessor of California Consumer Price Index (CCPI) or two percent for Fiscal Year 2018 through Fiscal Year 2042
- General Fund Pension Cost Reduction – any amount if pension costs for any fiscal year are less than the base year of Fiscal Year 2016 for Fiscal Year 2018 through Fiscal Year 2042

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Based on the definitions in Charter Section 77.1, the only required deposit to the Infrastructure Fund for Fiscal Year 2018 is the Major Revenues Increment. The Fiscal Year 2018 Adopted Budget for the Infrastructure Fund totals \$17.8 million and includes the following Major Revenue Increment deposits:

- Property Tax: \$13.4 million
- Transient Occupancy Tax: \$3.3 million
- Franchise Fees: \$1.1 million

The proposed uses for the \$17.8 million are:

- \$6.4 million for road repairs (slurry seal maintenance);
- \$5.6 million for Citywide Drainage Projects includes funding to support ongoing projects identified in the City's Watershed Asset Management Plan;
- \$2.1 million for Fire Station No.22, SR94/Euclid Av Interchange, and Avenida de la Playa Storm Drain funding based on immediate need;
- \$2.0 million for City Facilities Improvements include HVAC replacements, improvements to Police stations, and new improvements identified in facilities condition assessment reports;
- \$1.2 million for the construction of the Compressed Natural Gas (CNG) fueling station for the City's refuse collection fleet; and
- \$423,985 for final payment to San Diego Unified School District for the City's share of the turf replacement at Pershing Middle School joint use field.

Critical Strategic Expenditures

While the pension payment and Infrastructure Fund deposits are the largest expenditure increases in the General Fund, the Fiscal Year 2018 Adopted Budget includes funding for other critical strategic expenditures. Most notably, these expenditures include fully funding reserves to policy target levels, staffing for new facilities in both Fire-Rescue and Park & Recreation Departments, increased compensation for 911 dispatchers, funding in support of Police recruitment and retention, as well as funding for a parks master plan and affordable housing initiatives. All critical strategic expenditures are detailed in the General Fund Expenditures Section of this Volume.

In order to support these new General Fund expenditures, several fiscal actions were implemented as part of Fiscal Year 2018 Adopted Budget. These fiscal actions include the use of the Pension Payment Stabilization Reserve for the intended purpose, excess Workers' Compensation and Long-Term Disability Fund Reserves, operating budget reduction proposals, and unrestricted fund balance. These fiscal actions allow ongoing expenditures to be funded by ongoing revenues, ensuring the City maintains a structurally balanced budget in accordance with the Budget Policy.

Fiscal Actions

Pension Payment Stabilization Reserve

In Fiscal Year 2017, the City Council approved amendments to the City's Reserve Policy (Council Policy 100-20), establishing a Pension Payment Stabilization Reserve to minimize impacts to service levels when the City incurs unanticipated increases in pension payments from market volatility, changes in actuarial assumptions, or other actuarial losses. The Fiscal Year 2018 Adopted Budget for the General Fund includes the use of one-time funding of \$16.0 million from the Pension Payment Stabilization Reserve to offset the increase in the pension payment.

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Per the City's Reserve Policy, use of the Pension Payment Stabilization Reserve requires the Mayor to prepare a plan to replenish the balance to policy levels no later than one year from the use of the reserve. The Fiscal Year 2019-2023 Five-Year Financial Outlook, scheduled to be released in November 2017, will include a plan for the replenishment of the Pension Payment Stabilization Reserve in compliance with the City's Reserve Policy.

Excess Reserves and Reserve Policy Updates

Workers' Compensation Reserve

In February 2016, the City Council approved amendments to the City's Reserve Policy (Council Policy 100-20) to reduce the Workers' Compensation Reserve target from 25 percent to 12 percent of the three-year average of outstanding actuarial liabilities. This is equivalent to approximately one year of workers' compensation operating expenses and brings the reserve to a level proportionate to operating risks.

As a result of this amendment, the excess Workers' Compensation Reserve is \$19.7 million for the General Fund. The Fiscal Year 2018 Adopted Budget includes the use of excess workers' compensation reserves of \$14.1 million as follows:

- \$7.0 million to fully fund the General Fund Reserve to the Fiscal Year 2018 policy target levels
- \$3.1 million to fully fund the Public Liability Fund Reserve to the Fiscal Year 2018 policy target levels
- \$4.0 million reduction in workers' compensation operating expenses

The remaining excess workers' compensation reserves of \$5.6 million will be used on a recurring basis to support workers' compensation operating expenses through Fiscal Year 2020.

Long-Term Disability Reserve

The Long-Term Disability Fund reserve provides non-industrially disabled City employees with income and flexible benefits coverage. The Fiscal Year 2017 ending reserve balance is projected to be \$17.4 million, exceeding the policy target of \$11.0 million, which is the current three year average of the annual actuarial liability. Of the \$6.4 million excess reserves, \$4.0 million is anticipated to support funding for the death and disability benefit that is being negotiated with the City's recognized employee organizations.

The Fiscal Year 2018 Adopted Budget includes use of the excess reserves in the Long-Term Disability Fund through the reduction of \$2.1 million in long-term disability operating expenses, of which \$1.4 million is the General Fund.

General Fund Reserve Policy

In February 2017, the City Council approved amendments to the City's Reserve Policy (Council Policy 100-20) to extend the funding schedule to achieve the 16.7 percent policy goal for the General Fund Reserve from Fiscal Year 2021 to Fiscal Year 2025. As a result of these amendments, the General Fund reserve contribution for Fiscal Year 2018 was lowered from \$9.3 million to \$7.0 million, providing an ongoing expenditure relief for future years. To further aid in this effort, an additional \$10.3 million will be contributed to the General Fund reserve from Excess Equity, which funds the policy target level for Fiscal Year 2019 of 15.25 percent.

Budget Reduction Proposals

As part of the budget development process, General Fund departments were required to submit budget reduction proposals equating to 3.5 percent of the department's Fiscal Year 2017 Adopted

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Budget. Approximately, \$40.3 million of budget reduction proposals were submitted and reviewed by management to ensure the overall impact to service levels provided to residents would be minimal.

Of the \$40.3 million of budget reduction proposals submitted, the Fiscal Year 2018 Adopted Budget includes \$18.4 million of ongoing operating expenditure reductions, including the elimination of 57.13 FTE positions. The budget reduction proposals identified in the Fiscal Year 2018 Adopted Budget are focused on efficiencies and minimizing the impact to service levels. These ongoing expenditure budget reductions are required to allow ongoing expenditures to be funded by ongoing revenues, ensuring the City maintains a structurally balanced budget. **Table 3** provides the total budget reduction proposals by department included in the Fiscal Year 2018 Adopted Budget.

Table 3: General Fund Budget Reduction Proposals by Department

Department	Budgeted FTE Positions	FY 2018 Adopted Budget
City Attorney	6.37	\$ 930,650
City Auditor	-	\$ 110,191
City Clerk	-	\$ 20,000
City Comptroller	3.00	\$ 302,670
City Treasurer	1.00	\$ 305,751
Citywide Program Expenditures	-	\$ 1,150,000
Communications	2.50	\$ 168,257
Debt Management	-	\$ 12,717
Department of Information Technology	-	\$ 17,500
Development Services	1.00	\$ 288,589
Economic Development	-	\$ 525,264
Environmental Services	-	\$ 1,407,434
Financial Management	1.00	\$ 152,463
Fire-Rescue	-	\$ 3,780,331
Human Resources	1.00	\$ 137,541
Infrastructure/Public works	-	\$ 2,350
Internal Operations	-	\$ 34,776
Library	20.26	\$ 1,449,382
Office of Homeland Security	1.00	\$ 187,983
Office of the Assistant COO	-	\$ 68,108
Office of the Chief Financial Officer	-	\$ 20,547
Office of the Chief Operating Officer	-	\$ 16,000
Office of the Mayor	1.00	\$ 187,216
Park & Recreation	7.00	\$ 1,487,415
Performance & Analytics	-	\$ 130,000

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Table 3: General Fund Budget Reduction Proposals by Department

Department	Budgeted FTE Positions	FY 2018 Adopted Budget
Personnel	1.00	\$ 70,938
Planning	1.00	\$ 54,957
Police	-	\$ 530,000
Public Utilities	-	\$ 90,204
Public Works - Contracts	-	\$ 80,595,
Public Works - General Services	5.00	\$ 845,972
Purchasing & Contracting	3.00	\$ 230,458
Real Estate Assets	2.00	\$ 297,109
Transportation & Storm Water	-	\$ 3,268,305
Total General Fund	57.13	\$ 18,361,673

For additional information on General Fund budget reduction proposals, please refer to the General Fund Expenditures Section of this Volume.

Excess Equity (Unassigned Fund Balance)

Excess Equity is unassigned fund balance that is not otherwise designated as General Fund Reserves and is available for appropriation. Consistent with the City's Budget Policy on uses of one-time sources, Excess Equity is appropriated for one-time uses.

Based on the Fiscal Year 2017 Year-End Report, the estimated available Excess Equity at year-end is projected to be \$26.4 million. The Fiscal Year 2018 budgeted use of Excess Equity to fund one-time expenditures in the General Fund is \$26.1 million.

Additional Fiscal Actions

In addition to the fiscal actions detailed above, the Fiscal Year 2018 Adopted Budget includes the following adjustments to ensure the City maintains a balanced budget:

- \$4.0 million reallocation of the General Fund deferred capital bond (DC2A) debt service expense due to a transfer of the Fiscal Year 2018 payment to the Capital Outlay Fund;
- \$4.7 million increase in Transient Occupancy Tax (TOT) reimbursable revenue to the General Fund as a result of a decrease in the Commission for Arts & Culture allocation. The decrease to the Commission for Arts & Culture allocation from TOT is offset by an increase of \$4.2 million in one-time revenue from the General Fund supported by Excess Equity funds. The net reduction to the Commission for Art & Culture allocation in the Fiscal Year 2018 Adopted Budget is \$530,004; and
- \$4.8 million increase in TOT reimbursable revenue to the General Fund as a result of the use of Chargers lease termination fee for the Fiscal Year 2018 Stadium Operations Fund debt service payment on outstanding stadium bonds.

Proactive establishment of the Pension Payment Stabilization Reserve, implementing best practices to better align reserve levels in risk management funds, and proposing budget reductions with minimal service level impacts, have made it possible for the City to present a structurally balanced

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budget which uses ongoing revenues to pay ongoing expenditures and minimizes the overall impact to City services.

Special Revenue and Internal Service Fund Budget Reduction Proposals

As part of the budget development process, non-general fund departments which impact the General Fund were required to submit budget reduction proposals. The non-general fund budget reduction proposals which impact the General Fund are as follows:

Transient Occupancy Tax (TOT) Fund - Commission for Arts & Culture

The Fiscal Year 2018 Adopted Budget includes the reduction of \$530,004 for the Commission for Arts & Culture allocation. The Commission for Arts & Culture allocation for Fiscal Year 2018 totals \$14.6 million, of which \$4.2 million is supported with Excess Equity from the General Fund, a one-time revenue source. The use of Excess Equity allows the City to increase ongoing funding for General Fund reimbursable expenditures for safety and maintenance of visitor related facilities within the Park and Recreation and Fire-Rescue Department.

Information Technology Fund

The Fiscal Year 2018 Adopted Budget includes the reduction of \$1.5 million in the Information Technology Fund by delaying non-critical software enhancements and investment projects. The most notable delays are ServiceNow project portfolio management software, New Relic performance monitoring software, and Bill of IT expense management tool.

OneSD Support Fund

The Fiscal Year 2018 Adopted Budget includes the reduction of \$2.9 million in the OneSD Support Fund by delaying non-critical enterprise software enhancements and investment projects. The most notable delays are SuccessFactors enhancement, Enterprise Resource Planning consulting services, and Open Text document management tool.

Wireless Communications Technology Fund

The Fiscal Year 2018 Adopted Budget includes the reduction of \$113,423 in the Wireless Communications Technology Fund. This decrease will reduce the purchase of non-essential supplies and maintenance services. This reduction is not expected to significantly impact the Fund's operations or service levels.

Fleet Services Operating Fund

The Fiscal Year 2018 Adopted Budget includes the reduction of \$1.9 million in expenditures and 2.00 FTE positions. These decreases are associated with operational efficiencies identified in the Fund related to purchase of auto parts, contractual expenditures, fuel additives, automotive oil, and the rental and maintenance of vehicles.

Transient Occupancy Tax Fund - Special Events and Filming Department

The Fiscal Year 2018 Adopted Budget includes the reduction of \$49,909 related to film marketing in the Special Events & Filming Department. This reduces the Department's advertisement budget but does not impact the ability to provide permitting or core services for the filming program.

PETCO Park Fund

The Fiscal Year 2018 Adopted Budget includes the reduction of \$7,454 for office supplies and security services based on prior year's actuals.

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Energy Conservation Program Fund

The Fiscal Year 2018 Adopted Budget includes the reduction of \$116,644 for energy conservation contracts and consultants, energy efficient equipment, and legal and engineering services.

Risk Management Administration Fund

The Fiscal Year 2018 Adopted Budget includes the reduction of 3.00 FTE positions and expenditures of \$243,211 as a result of the departmental reorganization of position classifications, as well as a reduction to administrative support and in the frequency of ergonomic studies.

Enterprise Fund Budget Reduction Proposals

As part of the budget development process, certain enterprise funds were required to submit budget reduction proposals. The enterprise funds budget reduction proposals are as follows:

Sewer Funds

The Fiscal Year 2018 Adopted Budget includes an expenditure reduction of \$8.6 million in the Metropolitan Sewer Utility and Municipal Sewer Revenue Funds. The budget reduction proposals for the Fiscal Year 2018 Adopted Budget, as outlined below, are 3.5 percent of the Fiscal Year 2017 Adopted Budget, excluding debt service payments.

The contributors to this net expenditure decrease include the reduction of:

- \$3.0 million for payments to Wastewater Participating Agencies (PAs) for revenue sharing and reimbursement agreements;
- \$2.5 million for environmental restoration projects;
- \$2.3 million for contracts, for certain facility related expenditures that can be deferred based on current condition assessments;
- \$774,869 in the capital equipment, repair and maintenance budget for the Wastewater Treatment and Environmental Monitoring Divisions; and
- \$105,250 for Infrastructure Asset Management training.

Water Utility Operating Fund

The Fiscal Year 2018 Adopted Budget includes an expenditure reduction of \$7.2 million in the Water Utility Operating Fund. The budget reduction proposals for the Fiscal Year 2018 Adopted Budget, as outlined below, are 3.5 percent of the Fiscal Year 2017 Adopted Budget, excluding water purchases and debt service payments.

The contributors to this net expenditure decrease include the reduction of:

- \$3.5 million in payment for the Sweetwater Water Authority desalination plant;
- \$2.1 million in machinery, equipment, and vehicle rentals and purchases;
- \$1.4 million in contracts for training, outreach activities, and resource planning; and
- \$236,777 in IT projects for transition from GE Small World to ESRI.

Implementation of the Climate Action Plan

In December 2015, City Council adopted the Climate Action Plan (CAP). The CAP set greenhouse gas (GHG) emissions reduction targets for 2020 (15% reduction) and 2035 (50% reduction) from a 2010 baseline.

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The CAP identifies goals and actions in the following five strategic areas to reach or exceed GHG targets and ensure the City is prepared for a changing climate:

- Energy & Water Efficient Buildings
- Clean & Renewable Energy
- Bicycling, Walking, Transit & Land Use
- Zero Waste
- Climate Resiliency

Principles of sustainability and projects that reduce GHG emissions or improve the economic, social, or environmental sustainability of the City are woven throughout many departments and functions within City operations.

San Diego's CAP is considered a national model. As a City, we are breaking new ground in policies, programs, and methodologies to implement the plan. The Fiscal Year 2018 Adopted Budget demonstrates that the City remains committed to keeping the economic, social, and environmental principles of sustainability at the forefront of decision-making. **Table 4** is a summary of funding across City departments that support the five strategic areas of the CAP. The funding amounts represent new resources included in the Fiscal Year 2018 Adopted Budget. These new resources are added to existing CAP investment in the departments' base budgets (continuing appropriations).

Table 4: Funding Across City Departments

Climate Action Plan Fiscal Year 2018 Adopted Budget	
Strategy 1 - Energy & Water Efficient Buildings	\$ 27,521,444
Strategy 2 - Clean & Renewable Energy	1,288,315
Strategy 3 - Bicycling, Walking, Transit & Land Use	10,258,003
Strategy 4 - Zero Waste	10,719,998
Strategy 5 - Climate Resiliency	79,455,503
Overarching Implementation	90,320
Total	\$ 129,333,582

Citywide Personnel Expenditures

The Fiscal Year 2018 Adopted Budget includes a total of \$784.2 million for salaries and wages, and \$618.6 million for fringe expenditures, resulting in a total budget of \$1.40 billion in personnel expenditures citywide. **Table 5** illustrates the budgeted FTE positions, salaries and wages, fringe, and total personnel expenditures by fund type.

Table 5: Fiscal Year 2018 Adopted Personnel Expenditures Budget

Fund Type	Budgeted FTE Positions	Budgeted Salaries and Wages	Budgeted Benefits	Budgeted Personnel Expenses
General Fund	7,527.43	\$ 547,056,400	\$ 438,365,705	\$ 985,422,105
Special Revenue Funds	988.15	67,944,291	48,179,967	116,124,258

Citywide Budget Overview

Table 5: Fiscal Year 2018 Adopted Personnel Expenditures Budget

Fund Type	Budgeted FTE Positions	Budgeted Salaries and Wages	Budgeted Benefits	Budgeted Personnel Expenses
Enterprise Funds	2,500.35	145,075,047	112,650,645	257,725,692
Internal Service Funds	340.58	19,148,658	15,730,162	34,878,820
Other Funds ¹	63.00	4,971,421	3,689,353	8,660,774
Total	11,419.51	\$ 784,195,817	\$ 618,615,832	\$ 1,402,811,649

¹ Other Funds includes San Diego City Employees' Retirement System (SDCERS) FTE positions.

Total City Personnel

The Fiscal Year 2018 Adopted Budget includes a total of 11,419.51 FTE positions with 7,527.43 or 65.9 percent of these positions budgeted within the General Fund. **Table 6** presents the change in positions from Fiscal Year 2017 to Fiscal Year 2018.

Table 6: Total City FTE Position Changes Fiscal Year 2017 - 2018

Fund Type	FY 2017 Adopted Budget	Additions	Reductions	Reorganizations	FY 2018 Adopted Budget	FY 2017 - FY 2018 Change	Percent Change
General Fund	7,530.69	74.41	(81.12)	3.45	7,527.43	(3.26)	0.0%
Special Revenue Funds ¹	925.05	81.00	(15.90)	(2.00)	988.15	63.10	6.8%
Enterprise Funds	2,481.79	21.69	(1.68)	(1.45)	2,500.35	18.56	0.7%
Internal Service Funds	344.58	12.00	(16.00)	-	340.58	(4.00)	(1.2)%
Other Funds ²	63.00	-	-	-	63.00	-	0.0%
TOTAL	11,345.11	189.10	(114.70)	0.00	11,419.51	74.40	0.7%

¹ Total number of budgeted positions includes positions from Maintenance Assessment Districts (MADs).

² Other Funds includes San Diego City Employees' Retirement (SDCERS) FTE Positions.

For details on all position changes, refer to *Attachment A - Fiscal Year 2018 Changes in Full-time Equivalent (FTE) Positions* in the Appendix.

Table 7 represents the allocation of FTE positions per employee labor group within each fund type. The largest employee labor group, the Municipal Employees Association (MEA), represents 35.4 percent of General Fund positions and 44.8 percent of all City positions.

Citywide Budget Overview

Table 7: Fiscal Year 2018 Adopted FTE Positions by Labor Group

Labor Group	General Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds	Other Funds	Labor Group Total
MEA	2,663.52	779.30	1,503.89	135.23	37.00	5,118.94
IAFF LOCAL 145	929.00	9.00	-	-	-	938.00
AFSCME LOCAL 127	1,011.32	70.00	838.85	162.00	-	2,082.17
POA	2,033.35	-	-	-	-	2,033.35
Teamsters Local 911	165.51	-	-	-	-	165.51
DCAA	151.06	-	-	-	-	151.06
Classified / Unrepresented	143.74	38.35	75.59	20.00	7.00	284.68
Unclassified / Unrepresented	418.93	91.50	82.02	23.35	19.00	634.80
Elected Officials	11.00	-	-	-	-	11.00
Fund Total	7,527.43	988.15	2,500.35	340.58	63.00	11,419.51

Salaries and Wages

The Fiscal Year 2018 Adopted Budget includes \$784.2 million in budgeted salaries and wages, with \$547.1 million or 69.8 percent budgeted in the General Fund. **Table 8** displays the Fiscal Year 2018 Adopted Budget for salaries and wages by fund type.

Table 8: Fiscal Year 2018 Adopted Budgeted Salaries and Wages

Salary and Wage Type	General Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds	Other Funds ¹	Budgeted Salaries and Wages
Salaries/Add-on-Pays	\$ 494,302,310	\$ 69,554,776	\$ 141,423,533	\$ 19,344,738	\$ 4,977,549	\$ 729,602,906
Vacancy Savings	(29,699,510)	(3,429,119)	(10,491,812)	(705,347)	-	(44,325,788)
Salary Savings	(1,790,306)	(215,563)	(534,910)	(26,652)	(8,506)	(2,575,937)
Vacation Pay in Lieu	7,307,642	32,000	514,200	4,000	-	7,857,842
Termination Pay/ Annual Leave	2,396,178	109,186	356,608	-	-	2,861,972
Hourly Wages	13,025,916	394,688	1,979,980	41,104	2,378	15,444,066
Overtime	61,514,170	1,498,323	11,827,448	490,815	-	75,330,756
TOTAL	\$ 547,056,400	\$ 67,944,291	\$ 145,075,047	\$ 19,148,658	\$ 4,971,421	\$ 784,195,817

¹ Other Funds includes San Diego City Employees' Retirement System (SDCERS) FTE positions.

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The Healthy Workplaces, Healthy Families Act of 2014 (A.B. 1522) requires that any employee who, on or after July 1, 2015, works in California for 30 or more days within a year from the beginning of employment is entitled to paid sick leave. Hourly non-benefitted employees, will earn one hour of paid Hourly Sick Leave (A.B. 1522) for every 30 hours worked, up to a maximum accrual of 48 hours. The Fiscal Year 2018 Adopted Budget includes \$244,201 in the General Fund and \$291,658 citywide for Hourly Sick Leave (A.B. 1522), these amounts are based on projected expenditures in Fiscal Year 2017.

On June 7, 2016, the City of San Diego voters approved the Earned Sick Leave and Minimum Wage Ordinance. As of January 1, 2017, employees who perform at least two (2) hours of work in one work week (per calendar year) within the geographic boundaries of the City of San Diego must be paid wages of not less than \$11.50 per hour for all hours worked within the City's geographic boundaries. In addition, all employers must provide paid earned sick leave to each employee (including temporary and part-time employees) beginning on July 11, 2016. The earned sick leave requirements set forth in San Diego's Earned Sick Leave and Minimum Wage Ordinance, San Diego Municipal Code Chapter 3, Article 9, Division 1, applies to adult and minor employees who work two (2) or more hours in one workweek (per calendar year) within the City's geographic boundaries.

Vacancy Savings

Vacancy savings is used as a budgeting tool to allocate resources that are projected to remain unspent to other priority needs. As part of the development of the Fiscal Year 2018 Adopted Budget, the City is estimating an amount of personnel savings or vacancy savings by department that is attributable to normal attrition, extended leaves of absence, under-filled positions, and newly hired employees that may start at a lower salary than the salary of the prior incumbent. Savings from vacant reimbursable positions have been excluded from the estimated vacancy savings as the City does not realize savings due to offsetting revenue for these unfilled positions. These estimates of vacancy savings will require that departments monitor Fiscal Year 2018 personnel expenditures to available allocated appropriations. The Fiscal Year 2018 vacancy savings is \$44.3 million, representing an increase of \$999,727 or 2.3 percent from the Fiscal Year 2017 Adopted Budget. This increase is primarily due to increased vacancy savings in the Police Department as a result of a projected increase in vacancies in the Department, offset by a decrease in vacancy savings in the Fire-Rescue Department due to projected full staffing of Firefighter positions.

Table 9 displays the changes in budgeted vacancy savings from Fiscal Year 2016 to Fiscal Year 2018.

Table 9: Budgeted Vacancy Savings Fiscal Year 2016 - 2018

Departments/Funds	FY 2016 Adopted Budget	FY 2017 Adopted Budget	FY 2018 Adopted Budget
City Attorney	\$ 772,927	\$ 775,166	\$ 602,112
City Clerk	32,968	32,968	74,797
City Comptroller	172,785	236,278	93,745
City Treasurer	173,722	187,491	211,286
Communications	54,059	54,059	87,028
Debt Management	-	-	54,059

Citywide Budget Overview

Departments/Funds	FY 2016 Adopted Budget	FY 2017 Adopted Budget	FY 2018 Adopted Budget
Development Services	155,355	202,655	141,773
Economic Development	108,118	109,346	254,634
Environmental Services	159,905	338,964	332,592
Financial Management	59,467	59,467	65,291
Fire-Rescue	4,684,562	7,327,282	3,398,859
Library	672,721	787,452	541,547
Office of Homeland Security	-	-	59,363
Park & Recreation	1,007,337	974,299	970,217
Performance & Analytics	-	109,855	-
Personnel	59,114	53,893	53,893
Planning	159,578	146,079	153,588
Police	11,522,051	16,388,811	19,860,629
Public Works - Contracts	36,962	57,866	57,866
Public Works - General Services	254,945	314,580	466,648
Purchasing & Contracting	108,118	134,659	157,019
Real Estate Assets	31,491	66,768	54,059
Transportation & Storm Water	1,248,168	2,052,197	2,008,505
Total General Fund	\$ 21,474,353	\$ 30,410,135	\$ 29,699,510
Airports Fund	\$ 34,944	\$ 33,322	\$ 59,363
Central Stores Fund	34,611	29,931	30,056
City Employee's Retirement System Fund	341,182	-	-
Development Services Fund	4,067,601	4,551,001	3,534,927
Energy Conservation Program Fund	18,013	-	31,491
Engineering & Capital Projects Fund	1,779,822	2,051,733	2,998,684
Facilities Financing Fund	31,491	-	50,003
Fleet Services Operating Fund	-	-	325,185
Golf Course Fund	88,265	132,652	163,528
Information Technology Fund	126,131	109,855	80,454

Citywide Budget Overview

Departments/Funds	FY 2016 Adopted Budget	FY 2017 Adopted Budget	FY 2018 Adopted Budget
Local Enforcement Agency Fund	60,674	60,674	60,674
Maintenance Assessment District MAD Management Fund	51,459	59,363	-
Metropolitan Sewer Utility Fund	1,409,955	1,251,724	1,546,641
Municipal Sewer Revenue Fund	1,056,351	1,063,422	1,583,690
OneSD Support Fund	695,334	219,855	80,454
Parking Meter Operations Fund	41,330	41,330	41,330
Stadium Operations Fund	80,454	109,855	59,363
Recycling Fund	224,210	304,572	369,700
Refuse Disposal Fund	324,624	289,208	382,729
Risk Management Administration Fund	347,110	321,859	318,615
Water Utility Operating Fund	2,006,445	2,263,691	2,851,234
Wireless Communications Technology Fund	112,715	97,053	58,157
Total Non-General Fund	\$ 12,932,721	\$ 12,991,100	\$ 14,626,278
Total	\$ 34,407,074	\$ 43,326,061	\$ 44,325,788

Total Budgeted Fringe Allocations

Total budgeted fringe allocations represent personnel costs that are non-wage related. A significant portion of the total budgeted fringe allocations are considered fixed fringe costs. Fixed fringe costs are expenditures that meet specific obligations established through agreements with the labor unions, City ordinances, or the City's Reserve Policy, regardless of current FTE position count or salary amounts. Fixed fringe costs include the San Diego City Employees' Retirement System's (SDCERS) Actuarially Determined Contribution (ADC), as well as contributions for Workers' Compensation, Long-Term Disability (LTD), Other Post-Employment Benefits (OPEB), Unemployment Insurance, and Risk Management Administration (RMA). These expenditures account for \$426.1 million or 68.9 percent of budgeted fringe in Fiscal Year 2018. The remaining budgeted fringe allocations are variable to payroll activity such as reductions or additions in staff and salary increases or decreases.

Table 10 displays the citywide fringe allocation which totals \$618.6 million for Fiscal Year 2018, of which \$438.4 million or 70.9 percent is budgeted in the General Fund.

Citywide Budget Overview

Table 10: Fiscal Year 2018 Annual Budgeted Fringe by Fund Type

Fringe Type	General Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds	Other Funds	Fringe Totals
Retirement ADC	\$ 236,395,172	\$ 23,895,480	\$ 55,061,470	\$ 7,245,320	\$ 1,895,109	\$ 324,492,551
Retiree Health/Other Post-Employment Benefits	40,894,411	5,505,916	13,510,892	1,938,323	378,063	62,227,605
Employee Offset Savings	6,028,253	409,747	694,506	77,677	59,463	7,269,646
Retirement DROP	1,786,545	197,942	544,761	64,443	5,114	2,598,805
Workers' Compensation	22,351,788	828,322	3,735,006	700,025	50,762	27,665,903
Long-Term Disability	-	-	-	-	-	-
Flexible Benefits	96,617,481	11,049,499	26,325,790	3,855,675	812,924	138,661,369
Supplemental Pension Savings Plan	18,490,685	4,187,030	8,273,947	1,202,934	334,976	32,489,572
Retirement 401 Plan	212,743	55,836	81,350	11,414	4,152	365,495
Retiree Medical Trust	785,761	77,642	97,912	17,265	5,776	984,356
Risk Management Administration	6,889,539	927,593	2,276,636	326,553	63,693	10,484,014
Medicare	7,100,854	930,061	1,814,668	258,154	70,437	10,174,174
Unemployment Insurance	812,473	114,899	233,707	32,379	8,884	1,202,342
Fund Type Totals	\$ 438,365,705	\$ 48,179,967	\$ 112,650,645	\$ 15,730,162	\$ 3,689,353	\$ 618,615,832

City Retirement Contributions

The City's payment for retirement benefits in Fiscal Year 2018 is budgeted at \$327.9 million and is described below:

- The SDCERS Actuarially Determined Contribution (ADC) for Fiscal Year 2018 is \$324.5 million, representing an increase of \$63.4 million from the Fiscal Year 2017 Adopted Budget. The factors that contributed to the change in the ADC include new demographic assumptions, which increased the ADC by \$42.4 million; investment experience loss, which increased the ADC by \$9.1 million; discount rate and inflation rate reduction, which increased the ADC by \$6.7 million; and liability experience loss, which increased the ADC by \$6.6 million. Approximately \$236.4 million or 72.9 percent of the ADC is budgeted in the General Fund.

Citywide Budget Overview

- \$1.5 million is budgeted in the Citywide Program Expenditures Department for the Preservation of Benefits Plan contribution to SDCERS to cover benefit payments in excess of Internal Revenue Service (IRS) limits. Note this figure is not reflected in **Table 10**.
- \$2.0 million has been budgeted citywide (\$1.5 million in the General Fund) to fund the pay-go costs for the supplemental cost of living adjustment (COLA) benefit. The supplemental COLA benefit was established by San Diego Ordinance O-18608, adopted on January 11, 1999, to increase the monthly retirement allotment for retirees who retired before July 1, 1982 with at least ten years of service credit and whose benefits had fallen below 75 percent of their original purchasing power. A reserve was established in Fiscal Year 1999 with \$35.0 million in surplus earnings from the previous fiscal year to fund this benefit. However, this reserve was depleted in Fiscal Year 2015. As a result, Ordinance O-20282 was adopted on July 23, 2013 and the City funds the supplemental COLA benefit annually. Note this figure is not reflected in **Table 10**.

Retiree Health/Other Post Employment Benefits

The Retiree Health or Other Post Employment Benefits (OPEB) Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2016 is approximately \$537.8 million and the Annual Required Contribution (ARC) for Fiscal Year 2018 was determined to be \$48.5 million.

In Fiscal Year 2012, the City entered into a 15-year memorandum of understanding with each of its labor organizations and provided the same terms to unrepresented employees regarding reforms to the retiree healthcare benefit for health-eligible employees. The agreements set the City's annual OPEB budget at \$57.8 million for Fiscal Years 2013 through 2015, with annual increases of up to 2.5 percent after 2015. The City has budgeted \$62.2 million in Fiscal Year 2018 for retiree health care benefits. If the retiree health defined contribution and pay-as-you-go actuals exceed \$62.2 million, then the excess will be withdrawn from the City's CalPERS Employer Retiree Benefit Trust (CERBT) account.

Employee Offset Savings (EOS)

The Fiscal Year 2018 Adopted Budget includes Employee Offset Savings of \$7.3 million, which is budgeted as an expense to all City departments and revenue to the respective funds. The \$7.3 million will be transferred to the General Fund to backfill the Tobacco Settlement Revenues securitized in Fiscal Year 2006.

Retirement DROP

In accordance with the Deferred Retirement Option Program (DROP) adopted in Fiscal Year 1997, the City is required to match 3.05 percent of the DROP participants' salary. The Fiscal Year 2018 Adopted Budget for Retirement DROP contributions is \$2.6 million.



Workers' Compensation

State Workers' Compensation laws ensure that employees who suffer work-related injuries or illnesses are provided with medical treatment and monetary awards. State Workers' Compensation statutes establish this framework of laws for the City. The Fiscal Year 2018 citywide contribution to

Citywide Budget Overview

the Workers' Compensation Fund increased by \$2.0 million from the Fiscal Year 2017 Adopted Budget due to a projected increase in operating expenses.

In February 2017, City Council approved amendments to the City's Reserve Policy (Council Policy 100-20) to reduce the Workers' Compensation Reserve target from 25 percent to 12 percent of the three-year average of outstanding actuarial liabilities. As a result of this amendment to the Reserve Policy, the excess Worker's Compensation Reserve available for use is \$24.1 million, of which \$4.6 million will be used to reduce workers' compensation operating expenses in Fiscal Year 2018. The remaining excess reserves will be used to continue the reduction in workers' compensation operating expenses through Fiscal Year 2020. The workers' compensation contribution in the Fiscal Year 2018 Adopted Budget is \$27.7 million.

Long-Term Disability

Long-term disability is an employee benefit plan designed to provide partial salary replacement to eligible employees who are unable to work due to a disability as a result of injury, illness, or pregnancy. The Fiscal Year 2017 ending reserve balance is projected to be \$17.4 million, exceeding the policy goal of \$11.0 million, which is the current three year average of the annual actuarial liability. The Fiscal Year 2018 Adopted Budget includes the use of \$2.1 million in excess reserves from the Long-Term Disability (LTD) Fund to support LTD operating expenses.

Flexible Benefits

An Internal Revenue Service (IRS) qualified cafeteria-style benefits program is offered to all eligible employees. All employees in one-half, three-quarter, or full-time status are eligible. The Fiscal Year 2018 Adopted Budget for Flexible Benefits is \$138.7 million, representing an increase of \$23.1 million from the Fiscal Year 2017 Adopted Budget. This increase is a result of non-pensionable benefit increases outlined in the labor agreements between the City and its six Recognized Employee Organizations. This increase in flexible benefits includes \$10.7 million for the additional flexible benefit allotments for sworn officers with eight or more years of service in the Police Department as defined in the Memorandum of Understanding between the City of San Diego and the San Diego Police Officers Association approved in Fiscal Year 2016.

The City currently offers healthcare coverage to all of its full time, three-quarter time, half-time employees, and non-standard hour employees working an average of at least 30 hours per week or 130 hours per month, per the Affordable Care Act (ACA), through the Flexible Benefits Plan. The majority of City employees qualify for the Flexible Benefits Plan, thus complying with a key component of the ACA. The City continues to monitor ACA mandates and clarifications to assess the impacts on City benefit plans.

Supplemental Pension Savings Plan (SPSP) and New Retirement Plans

In 1982, the City opted out of Social Security and established the Supplemental Pension Savings Plan (SPSP). SPSP accounts provide a way for eligible employees to add to savings for retirement income, which is in addition to SDCERS' benefits. Employees hired before July 1, 2009 must contribute a mandatory 3 percent. Employees hired on or before July 1, 1986 can voluntarily contribute up to an additional 4.5 percent, and if hired after July 1, 1986 an additional 3.05 percent. This amount is deducted from employees' paychecks and placed into an SPSP account for the employee. The City also matches these contributions. The Fiscal Year 2018 Adopted Budget for SPSP is \$16.2 million.

General members hired on or after July 1, 2009 but before July 20, 2012 receive a hybrid retirement plan which includes a reduced defined benefit retirement plan as well as a defined contribution savings plan with a mandatory employee contribution of 1.0 percent of payroll, which the City

Citywide Budget Overview

matches. The Fiscal Year 2018 Adopted Budget for the City's contribution match is \$365,495, based on 595.34 FTE general members as of November 2016.

On June 5, 2012, City of San Diego voters approved Proposition B, a pension reform initiative amending the San Diego City Charter. As a result, all employees hired on or after July 20, 2012, other than sworn police officers, are no longer eligible to participate in the City's defined benefit plan and are only eligible to participate in a defined contribution plan. New hires with offers of employment made on or after July 20, 2012, with no prior City service, are placed in the SPSP-H Plan, which is being used as an Interim Defined Contribution Retirement Plan for benefited employees. Eligible new hires who are non-safety employees are required to contribute 9.2 percent of compensation to the plan, which is matched by a 9.2 percent employer contribution. For safety employees, the mandatory employee and matching employer contributions is 11.0 percent of compensation. In December 2015, the Public Employment Relations Board (PERB) issued a decision in favor of the City unions in an Unfair Practice Charge (UPC) filed by the San Diego Municipal Employees Association (MEA), the International Association of Firefighters (IAFF) Local 145, the American Federation of State County And Municipal Employees (AFSCME) Local 127, and the Deputy City Attorneys Association of San Diego (DCAA), ruling that the City had violated the Meyers-Milias-Brown Act (MMBA) when it failed to meet and confer over the language of Proposition B. On April 11, 2017, the Fourth District Court of Appeals issued an opinion concluding the PERB erred when it applied agency principles to transform the Citizens Pension Reform Initiative (CPRI) from a citizen-sponsored initiative into a City sponsored initiative and that Proposition B did not violate MMBA. On July 26, 2017, the California Supreme Court granted review of the appellate decision. Argument at the California Supreme Court is not expected until 2018 or 2019.

The Fiscal Year 2018 Adopted Budget for the City's Interim Defined Contribution Retirement Plan is \$15.4 million, which represents an increase of \$3.6 million over the Fiscal Year 2017 Adopted Budget. This increase is primarily due to the assumption that vacant and new positions being added to the budget will be filled by employees in the Interim Defined Contribution Retirement Plan. Additionally, the Fiscal Year 2018 Adopted Budget includes \$855,061 in the SPSP-H account for hourly employees.

Retiree Medical Trust (RMT)

The Fiscal Year 2018 Adopted Budget for retiree health trust contributions is \$984,356. General members hired on or after July 1, 2009 must contribute 0.25 percent of payroll into a retiree medical trust, which the City matches. The Fiscal Year 2018 Adopted Budget for the City's contribution match to general members is \$415,814. In addition, \$568,542 is included in the Fiscal Year 2018 Adopted Budget for contributions to the Southern California Firefighters Benefit Trust for each active International Association of Firefighters (IAFF) Local 145 member.

Risk Management Administration

The Risk Management Administration (RMA) rate is established to support the appropriated expenditures that fund all of the programs and services provided by the Risk Management Department, which is an Internal Service Fund. These services include the administration of Workers' Compensation, Public Liability and Loss Recovery, Safety and Environmental Health Services, Employee Benefits, Savings Plans, and Long-Term Disability. The Fiscal Year 2018 Adopted Budget for Risk Management Administration is \$10.5 million.

Medicare

Medicare is a federal tax established by the Federal Insurance Contributions Act (FICA) that all employees and employers are required to pay.

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The application of this rate applies to all City employees and is based on earned income, including any earned income related to overtime or other employee special pays. The Fiscal Year 2018 Adopted Budget for Medicare is \$10.2 million.

Unemployment Insurance

Unemployment Insurance provides temporary unemployment benefits to eligible workers who are unemployed and meet State law eligibility requirements to receive the benefit. The Fiscal Year 2018 Adopted Budget for Unemployment Insurance is \$1.2 million.

Recognized Employee Organization (REO) Agreements

The City Council has approved Memoranda of Understanding (MOU) with all six Recognized Employee Organizations (REO). The Deputy City Attorneys Association of San Diego (DCAA) Memorandum of Understanding (MOU) agreed to a term through Fiscal Year 2019. The San Diego Police Officers Association (POA), the San Diego Municipal Employees Association (MEA), the International Association of Firefighters (IAFF) Local 145, the American Federation of State County And Municipal Employees (AFSCME) Local 127, and the California Teamsters Local 911 agreed to terms through Fiscal Year 2020. The Memoranda of Understanding (MOU) with all six Recognized Employee Organizations include non-pensionable compensation increases in Fiscal Year 2018 and pensionable compensation increases in Fiscal Years 2019 and 2020 in accordance with Proposition B passed by voters in July 2012. Additionally, in Fiscal Year 2017 Police Department 911 dispatchers received pensionable compensation increases that have been funded in Fiscal Year 2018 Adopted Budget.

In Fiscal Year 2018, represented employees will receive non-pensionable compensation increases consistent with terms in the approved MOU and with requirements set forth in the San Diego Charter section 70.2.

