
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Developing a Structural Budget Deficit Elimination Plan

OVERVIEW

At the City Council meeting of December 9, 2009, the City Council adopted resolutions to enact budgetary reductions for FY 2010 and approved a plan for FY 2011 for the General Fund Budget. In addition, the Council directed that the Mayor, IBA, and Council develop and implement a strategic plan designed to eliminate the structural budget deficit within the next 18 months. The plan is to include implementation of best practices as well as feasible recommendations from the Mayor, the Council, the labor unions, and citizens of San Diego, via San Diego Speaks and citizen commissions. Development of the strategic plan is to begin immediately in January 2010 at the meeting of the Budget and Finance Committee. The motion also included adoption of the IBA's recommendations 2 through 24, as outlined in IBA report no. 09-90.

In February 2008, the IBA issued report no. [08-14](#) on "City of San Diego Structural Budget Deficit", which described, for the first time, the persistent structural budget imbalance the City had confronted over the past six fiscal years. The report provided a general overview of the approach that could be taken to overcome a structural budget deficit, and described the process of the City of San Jose, which had already begun to take necessary steps to combat a similar problem. In short, the report stated, structural deficits require structural solutions.

Now, in January 2010, the City of San Diego is making a commitment to permanently eliminate its structural budget deficit. The Council's approval of the budget solutions in

December was predicated on this commitment to address and solve the ongoing budgetary imbalance. The Mayor and Chief Operating Officer agreed at that time that the proposed budgetary solutions for FY 2010 and 2011 provided an 18-month bridge that allows time to seriously consider solutions that can be implemented for the Fiscal Year 2012 budget.

The IBA believes such a plan must be multi-faceted in its approach, including a mix of strategies and options. The plan must also be inclusive and open to different perspectives and a variety of inputs. Of utmost importance is consideration of the implementation period for each option to understand when budgetary relief can realistically be expected. Of equal significance is the attention that must be placed on financial and operational policies, to ensure that once a structurally balanced budget is achieved, it is maintained every year, and that an imbalance is not allowed to recur.

The Mayor has estimated that a budget deficit of \$77 million will occur for Fiscal Year 2012, following the budgetary changes recently approved by the Council for Fiscal Years 2010 and 2011.

FISCAL/POLICY DISCUSSION

The IBA anticipates the estimated deficit for FY 2012 will increase as updated information becomes available related to the City's major revenue sources, as well as possible changes to original cost savings associated with proposed service reductions. The service reductions may be impacted by meet and confer requirements with the City labor groups, which could result in revised implementation dates.

The need to develop and implement a Structural Budget Deficit Elimination Plan becomes a greater imperative every day. To facilitate this work, the IBA has compiled guiding principles and key elements of recommendations from varied sources who have studied these matters extensively over the past months and even years. These include:

- Government Finance Officers Association (GFOA)
- City of San Jose
- Center on Policy Initiatives (CPI)
- Citizens' Fiscal Sustainability Task Force

Summaries of these sources have been provided as Attachment 2 to this report as a reference. A review of a number of sources is helpful in identifying the common elements deemed necessary to effectively address a structural budget deficit; and can assist the Mayor and Council in tailoring a plan for the City of San Diego.

Structural Reforms Previously Adopted by the Council

The City Council motion on December 9, 2009 included adoption of the IBA's recommendations 2 through 24, as outlined in IBA report no. 09-90. Recommendations 18 through 24 were categorized as Structural Reforms, and are related to many of the areas that will need to be addressed as part of a Structural Budget Deficit Elimination Plan.

Council Fiscal Reforms Matrix

On July 15, 2009, the IBA distributed a revised FY 2010 Council Fiscal Reforms Matrix. The Council Fiscal Reforms Matrix is comprised of Council ideas culled during the FY 2010 budget development process and adopted by the Council on June 8, 2009 by resolution R-304958. Additionally, items from the IBA's policy matrix not completed in prior years were added, bringing the items on the revised matrix to a total of thirty-one (Attachment 1).

From IBA Report No. 09-90 Structural Reforms:

18. Chief Operating Officer provide date for completion and presentation to City Council on the DROP neutrality study;
19. Mayor provide report to City Council on the work and timeline of the Mayor's Retiree Health Care Study Group which has been meeting since September;
20. The IBA is working with the City Attorney's office to evaluate issues related to pension and retiree health care matters;
21. Complete managed competition negotiations;
22. Mayor explore opportunities for implementing 4/10/5 work schedule in other work areas in light of the significant efficiencies demonstrated by the Environmental Services;
23. Mayor initiate cost of service study for storm water operations and/or refuse collection to prepare for a future fee;
24. IBA review and update the Council-Approved Fiscal Reforms Matrix approved during FY 2010 budget process and present to the Budget and Finance Committee.

The IBA intends to report the progress of each major item at an upcoming Budget and Finance Committee meeting, and indicate whether the City of San Diego has addressed each issue and whether more work is needed. Work on many items in the matrix has begun and is directly related to work that will be helpful as part of a Structural Budget Deficit Elimination Plan, including a citizen survey and the creation of a citizens commission.

City Policies

As part of recent fiscal reforms, the City of San Diego has made tremendous progress in adopting financial and operational policies that will assist the City in making sound fiscal decisions in the future. If followed, the policies will ensure the City does not allow a structural budget deficit to recur. Policies on User Fees, Budget Practices, Debt Issuance, and the Prioritization of Capital Improvement Projects provide many of the sound fiscal practices recommended by GFOA and put into place by other municipalities, and mirror many of the guidelines and strategies that we have reviewed from other sources.

However, given the current structural budget imbalance, the City has not yet fully committed to some elements of these policies. Some examples include the use of one-time resources, achieving and maintaining full cost-recovery for fees for service, and continuing with capital projects that may result in future unfunded operating and maintenance costs.

Citizen Survey

The IBA has begun work with Behavior Research Center on a citizen survey expected to provide insight into citizens' opinions on the level and priority of services to be provided by the City, and possible services for which they may be willing to pay more. The IBA intends to report more fully on the status of the citizen survey at an upcoming Budget and Finance Committee meeting. The results of the survey, which are expected in the Spring, will provide useful data as a plan is developed.

Citizens Revenue Review and Economic Competitiveness Commission

The Citizens Revenue Review and Economic Competitiveness Commission held its initial meeting on December 15, 2009, and the next meeting is scheduled for January 7, 2010. This group is expected to review the Citywide revenue audit which is currently being completed by the City Auditor, and to the results of the citizen survey, once completed. In addition, the Commission will be researching strategies to retain and attract businesses and will research strategies to maximize revenues of the City. The Commission is to make its recommendations to the Mayor and Council within six to eight months. It is necessary to allow time for this group to complete its important goals and objectives. The work of this group will also help to inform the Structural Budget Deficit Elimination Plan.

Suggested Guiding Principles

We have identified some of the most common guiding principles for eliminating a structural budget deficit. Some of these principles are already included in recently adopted City policies, which have not yet been fully carried out. Committing to these principles now as part of the development of a Structural Budget Deficit Elimination Plan will ensure these best practices are put into action. These guiding principles, along with the Council Reforms Matrix in Attachment 1, the IBA Structural Reforms noted on page 3, and existing City policies, serve as a framework for a Structural Budget Deficit Elimination Plan. Once principles are agreed upon, an action plan, implementation steps and timeframes should be developed and adopted for each principle.

Next Steps

It will be important to receive input from the Budget and Finance Committee, the City Council, and the Mayor on

Suggested Guiding Principles:

1. Eliminate the General Fund structural budget deficit through a balanced approach of ongoing expenditure reductions and revenue generation, including identifying new revenue sources.
2. Maintain General Fund Reserve levels at no less than 7% of the City's General Fund.
3. Actively pursue alternative service delivery methods, efficiency improvements and elimination of service duplications.
4. Prepare a Five-Year Outlook that is structurally balanced each year of the Outlook.
5. One-time resources should be matched to one-time expenditures.
6. Achieve 100% cost recovery for programs and services that are intended to be fully cost recoverable through fees.
7. Reduce pension and retiree health care liability and annual City costs through the meet and confer process.
8. New facilities or programs should only be considered if there is no new impact on the City's General Fund.
9. Prioritize City services expenditures based on results of Citizen Survey, benchmarking studies and departmental goals and performance data.
10. Maintain funding of full annual contributions for pension obligations and begin to fund full annual contributions for retiree health care obligations.
11. Adequately fund deferred infrastructure and maintenance needs annually to ensure that the problem is not growing, and to reduce the potential of increased costs.

the suggested principles. Once a set of principles is agreed upon, an action plan with implementation steps and timeframes can be developed and brought to the Budget and Finance Committee for review and discussion, and forwarded to the City Council for adoption. The implementation steps and timeframes can include receiving various inputs in the months ahead, such as the results of the citizen survey, and recommendations from the Citizens Commission, as they become available.

CONCLUSION

The City of San Diego is making a commitment to permanently eliminate its structural budget deficit, by developing a Structural Budget Deficit Elimination Plan. The IBA believes such a plan must be multi-faceted in its approach, including a mix of strategies and options. The plan must also be inclusive and open to different perspectives and a variety of inputs.

To facilitate this work, in this report, the IBA has compiled guiding principles and key elements of recommendations from varied sources who have studied these matters extensively. A review of a number of sources is helpful in identifying the common elements deemed necessary to effectively address a structural budget deficit and can assist the Mayor and Council in tailoring a plan for the City of San Diego. The IBA has suggested guiding principles as a starting point. Once agreed upon, an action plan, implementation steps and timeframes can be developed and adopted for each principle.

[SIGNED]

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Attachments:

1. FY 2010 Council Fiscal Reforms Matrix
2. Government Finance Officers Association (GFOA) Fiscal First Aid
3. City of San Jose Structural Budget Deficit Elimination Plan
4. Center on Policy Initiatives (CPI) – Bottom Line
5. Citizens’ Fiscal Sustainability Task Force – Fiscal Outlook