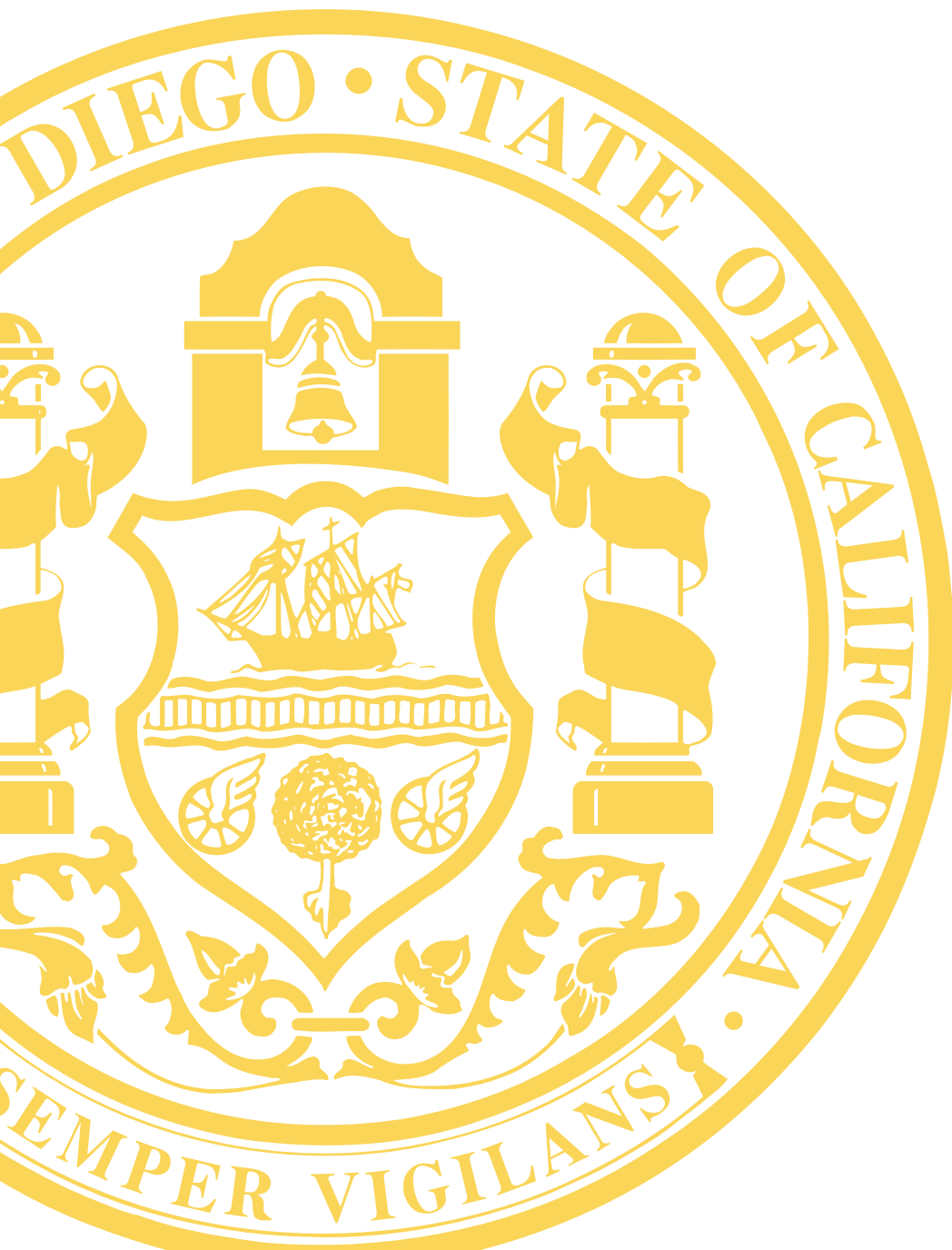


# EXECUTIVE SUMMARY

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# Executive Summary

## Significant Changes to the Annual Fiscal Year 2006 General Fund Budget

The Annual Fiscal Year 2006 Budget provides a fresh start in addressing the City's fiscal issues; it does not immediately correct deficiencies that have been created over the last 13 years, but initiates steps to solve the City's fiscal challenges. With the exception of salary and benefit adjustments, this annual budget maintains current funding for public safety services which will continue to remain a priority in the budget development process. It provides for basic core services and contractually obligated personnel expenses, but the reliance solely on the annual growth of existing revenues will greatly limit the City's ability to meet additional budgetary priorities. The era of funding non-core services at the expense of deferred maintenance cannot continue. This budget was difficult to construct and still does not fully fund new facilities or deferred maintenance. What this budget represents is the first step in focusing on core services and setting the foundation on which to address the needs of the citizens of this City. The sacrifices made now are intended to provide future benefits to keep this City strong and self-reliant.

One of the first steps in making sacrifices was the employee concessions agreed to as a result of the Meet & Confer process completed in May of 2005. These concessions will produce an estimated revenue stream of \$17.3 million. The Municipal Employees Association (MEA), the International Association of Firefighters Local 145 (IAFF), and the Deputy City Attorney Association (DCAA) agreed to reduce the Retirement Offset the City previously paid by 3% with the stipulation that the savings be used to generate funds to apply towards the Pension Unfunded Actuarial Accrued Liability ("UAAL"). AFSCME Local 127 agreed to a 1.9% pay reduction to generate the equivalent savings and lower the salary base against which the Actuarial Valuation is based. The City imposed a 3.2% reduction for the Police Officers Association (POA) members via impasse. These funds must be expended by key dates or they will revert back to employees in the form of offset payments.

Based on recent legislation (Proposition 1A), the City should no longer suffer at the expense of the State of California. Over the last 13 years the State has diverted over \$402 million from the City of San Diego. During this time the City has continued to provide core and non-core services at the expense of deferred maintenance, public safety fleet replacement, capital improvements and transportation needs. During this diversion era, the City has stepped in and demonstrated regional leadership in providing services that either the State or other jurisdictions have failed to provide, including the 6 to 6 Program and regional complex social services. Although arguably quite essential, these programs have created a long-term expense by deferring other essential needs. This budget reduces funding for a significant portion of those services. The inequities of regional funding needs to be examined; for example, although the County of San Diego does not provide Fire Protection services, based on State legislation the County still receives over 94 percent of the Safety Sales Tax generated in this region while the City of San Diego's Police Department and San Diego Fire-Rescue Department provide protection for approximately 45 percent of the region's population.

After the State began diverting local revenues, other cities throughout the State either reduced services or approved alternative revenues sources such as increased Property Transfer Taxes or Utility User Taxes. At the same time, the City took a different course by not implementing these alternative revenue sources and instead encouraged economic vitality by recruiting diversified industries and creating a business friendly climate through approval of the lowest business tax of large cities in the State. The benefit of this action has been a reduced impact to the local economy during recessionary times; however it has created an environment that has not produced revenue growth to keep pace with essential priorities and citizen requirements.

# Executive Summary

Although revenue growth has not kept pace with expenditure requests, the City continues to find solutions to bring expenditures in line with available revenues. This budget will continue to provide the necessary funding for essential services such as police and fire protection, trash collection, and water and wastewater services in Fiscal Year 2006. However this budget also takes a different approach in other areas. In the absence of new revenue, it provides funding for only one new facility and proposes funding options for deferred maintenance. The citizens and policy makers will need to determine the priority of maintaining existing facilities versus opening new facilities without sufficient operating revenue. The impact of this situation is explained further in the *Service Level Impacts* section of this budget volume.

Revenue growth in the General Fund for the Annual Fiscal Year 2006 Budget from ongoing revenue sources is estimated to be \$47.5 million. Under a different scenario, without diversion of local revenue to the State of California, this growth might be enough to fund necessary requirements for City operations. However this revenue growth is not enough to fund the estimated \$70.5 million in increased General Fund costs of performing City operations. The Fiscal Year 2006 expenditure requirements include funding the annualization of the Fiscal Year 2005 annual negotiated contracts with all four labor bargaining units, funding the full Fiscal Year 2006 actuary requirement of the City's General Fund retirement contribution and funding the retiree health care costs in addition to core operating needs throughout the City departments. (Non-General funds will also fund their respective increased cost of operations for their labor and retirement contributions).

Because budgeting is a revenue-driven process, the net effect of the City's revenue vs. expenditure situation is that the General Fund Fiscal Year 2006 budget is increased by \$47.5 million due to revenue growth; however, the need of \$70.5 million in increased expenditures requires departments and programs to reduce their expenditures by almost \$23.0 million. In meeting this fiscal challenge, funding of both personnel and non-personnel expenditures will be reduced in most non-public safety General Fund departments.

This budget includes reductions across the board to managerial departments, non-managerial departments, elected official's budgets, and allocations to City organizations. Reductions to the non-public safety departments range between 0.9 percent to beyond 20 percent. The overall budget impact of the non-public safety departments is a 6.9 percent reduction of expenditures and a 5.44 percent reduction of positions when compared to the total Fiscal Year 2005 non-public safety General Fund budget of \$359.1 million.

These reductions have resulted in downsizing the General Fund departments by 209.55 budgeted positions across all levels of classifications. The downsizing also includes positions that are supplemental/limited (not budgeted) and includes management level positions. Some positions are vacant, but many are filled, resulting in direct impacts to public services and layoffs.

Even with the emphasis on Public Safety activities, there are still impacts to both the Police and San Diego Fire-Rescue budgets. Both the Police and San Diego Fire-Rescue Departments presented reports in March 2005, which identified needs in all areas of personnel and non-personnel expense. This annual budget includes increased funding for contractually obligated personnel expense including retirement contributions and retiree health care allocations; however it does not fund all the needs identified in the respective departments' budget requests. Further discussion of this situation is included in the Unfunded Budget Request section in Volume I.

# Executive Summary

The following chart indicates the overall net changes to both General Fund revenues and General Fund expenditures. As previously discussed, the General Fund expenditure requirements outpaced the available revenue thus requiring a corresponding decrease in departmental funding. The expenditure requirements included below are:

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## General Fund Revenue Growth Over Fiscal Year 2005 Budget

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Net Revenue Growth	\$ 47.5 million
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## General Fund Expenditure Growth Over Fiscal Year 2005 Budget

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Public Safety annualization of FY 2005 contracted salaries and benefits	\$ 38.9 million
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Public Safety new facility and annualization operating costs	\$ 0.6 million
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Public Safety additions	\$ 3.0 million
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Non-Public Safety annualization of FY 2005 contracted salaries and benefits	\$ 21.4 million
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Non-Public Safety new facility and annualization operating costs	\$ 0.8 million
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Non-Public Safety additions	\$ 7.0 million
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Public Liability	\$ 1.0 million
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Disclosure Ordinance Additions	\$ 1.6 million
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Non-discretionary accounts (insurance, energy, vehicle usage, information technology, etc.)	\$ 2.8 million
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Other Department Transfers/Reductions	(\$ 6.6 million)
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<b>Total Expenditure Requirements</b>	<b>\$ 70.5 million</b>
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Department funding reductions	(\$ 23.0 million)
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Net Expenditure Requirements	\$ 47.5 million
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Despite \$23.0 million in personnel and non-personnel funding reductions, many department budgets have net increases to their Annual Fiscal Year 2006 Budget due to the increased cost of operations resulting from contracted salaries, retirement system contributions, retiree health care costs, and minor inflationary adjustments. The chart below represents the change in the General Fund over the last four fiscal years. It also identifies the increased funding percentage of General Fund dollars for public safety services, which remained a priority during the Fiscal Year 2006 budget development process despite budget difficulties.

# Executive Summary

## General Fund Summary Fiscal Years 2003 - 2006

	FY 2003	FY 2004	FY 2005	FY 2006
Total General Fund Budget	\$ 729,330,522	\$ 743,013,269	\$ 817,432,989	\$864,919,912
Percent Change from previous year	2.45 %	1.88 %	10.02 %	5.81 %
Police and Fire-Rescue Budgets	\$ 380,435,934	\$ 396,074,411	\$ 458,325,803	\$496,815,077
Percent of Total General Fund Budget	52.16 %	53.31 %	56.07 %	57.44 %
Non-Public Safety Budgets	\$ 348,894,588	\$ 346,938,858	\$ 359,107,186	\$368,104,835
Percent of Total General Fund Budget	47.84 %	46.69 %	43.93 %	42.56 %

Customer services, such as parks and recreation, libraries, neighborhood services, and transportation, as well as other areas were reduced due to funding constraints. The chart below summarizes changes by Program Area that are included in the Annual Fiscal Year 2006 General Fund budget. The departments included in each of the respective Program Areas are detailed in Schedule VI – Summary of Expenditures in Volume I.

### General Fund Changes by Program Area

Program Area Budget	Annual Fiscal Year 2005 Budget	Annual Fiscal Year 2006 Budget	Change from Fiscal Year 2005
Public Safety	\$ 461,062,910	\$ 498,967,261	\$ 37,904,351
Office of Homeland Security	\$ 433,381	\$ 589,284	\$ 155,903
Park and Recreation	\$ 75,913,573	\$ 79,030,543	\$ 3,116,970
Sanitation and Health	\$ 43,534,450	\$ 45,875,968	\$ 2,341,518
Transportation	\$ 7,162,975	\$ 8,167,602	\$ 1,004,627
Library	\$ 35,448,368	\$ 36,647,886	\$ 1,199,518
Neighborhood Services	\$ 23,208,581	\$ 17,626,723	\$ (5,581,858)
Operations Support	\$ 119,502,774	\$ 124,450,519	\$ 4,947,745
Internal Support/Management	\$ 51,165,977	\$ 53,564,126	\$ 2,398,149
<b>Total</b>	<b>\$ 817,432,989</b>	<b>\$ 864,919,912</b>	<b>\$ 47,486,923</b>

### General Fund - Personnel Funding Obligations

A net total of \$688.6 million is in the Fiscal Year 2006 Annual General Fund Budget for personnel expense. This includes \$450.1 million for salaries and wages (which includes all annualized cost of living adjustments from Fiscal Year 2005) and \$238.5 million for fringe benefits. These personnel expenses account for 80 percent of the Fiscal Year 2006 General Fund budget.

Aside from retirement contribution expenses, fringe expenses have stabilized. After significant inflation over several years, workers' compensation costs have remained constant throughout Fiscal Year 2005. The City's proactive approach to safety management and injury prevention has resulted in a steady decline of work related injuries. The City has also implemented an actuarially sound rate structure that has enabled the Workers' Compensation Fund to be funded at a level expected to meet projected expenditures. Lastly, the impact of workers' compensation reform legislation approved in April 2004 has

# Executive Summary

resulted in a significant decline in medical utilization and costs. As medical costs are the primary driver of workers' compensation expenses, this has had a significant positive impact.

## Annual Fiscal Year 2006 General Fund Position Changes

The \$23.0 million in department funding reductions includes a net 189.95 position (FTE) reductions consisting of managerial and line staff across all levels of the organization. Over the past several fiscal years, budget deficits were bridged through internal efficiencies, selected program adjustments and some position reductions. However, by Fiscal Year 2005 it became difficult to merely maintain current service levels with available funding as an insufficient number of personnel and supplies were not able to provide the same level of services to the public. The reductions represented in this budget will directly impact services to citizens. These service level impacts are described in the *Service Level Impact* section in this same volume.

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<b>Total Fiscal Year 2005 General Fund Positions</b>	<b>6,955.31</b>
Program Reductions	(209.55)
General Fund - New	31.13
Reimbursable from Other Sources - New	0.00
Reallocation/Reorganization	(24.55)
Annualizations	8.70
New Facilities	4.32

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<b>Total General Fund Position Changes</b>	<b>(189.95)</b>
<b>Total Fiscal Year 2006 General Fund Positions</b>	<b>6,765.36</b>

209.55 budgeted positions reduced in Fiscal Year 2006 due to projected revenues not meeting the level of projected expenditures, thus requiring departments to reduce their Annual Fiscal Year 2006 Budget staffing levels. In preparing for position reductions, City departments maintained vacant positions when possible in Fiscal Year 2005.

31.13 new positions are included in the Annual Fiscal Year 2006 General Fund Budget. This includes 10.00 positions that are directly attributed to the Fire Helicopter program (Fire One) and will be funded with the reallocation of \$1.2 million in the non-personnel budget used to fund contract helicopter services. This will result in no new additional funding requirements for Fire One in Fiscal Year 2006. It also includes 12.4 positions to support the requirements set forth through the Mayor and City Council's approval of the Disclosure Ordinance, 7 positions for the Plaintiff Litigation Program that will focus on monetary recovery on behalf of the City, 1.0 position for the restoral of the homeless coordinator, and 0.73 position for the Park and Recreation Department.

(24.55) position reallocations are a result of the transfer of the Redevelopment Division from the Community and Economic Development Department to the newly created City Redevelopment Department outside of the General Fund and the City Manager's restructuring of Executive Team assignments. The decrease is attributable to 22.70 Redevelopment position transfers, 2.15 Deputy City Manager and Executive Secretary position allocations being correctly charged to non-general fund departments, 0.30 of the Financial Management Director being reallocated to the General Fund, and the elimination of 1.0 Assistant City Manager position.

# Executive Summary

13.02 General Fund positions associated with Library and Fire-Rescue annualizations and new facilities are included in the Fiscal Year 2006 budget. Of the 13.02 positions, 4.32 are new positions for Station 47 which is scheduled to open in March 2006 and 8.70 are annualized positions for the North University City Branch Library. Although there are other new facilities scheduled to open in Fiscal Year 2006, this annual budget does not include funding for additional staff beyond the positions identified here.

## General Fund - Non-Personnel Funding Obligations

### Non-Discretionary Expenses

Non-discretionary expenses include adjustments to items such as electricity, gas, water, sewer, insurance, information technology, and office leases after analysis and forecasting by City departments. Increases to these expenses are outside of the departments' control; however departments are consistently reminded to conserve these expenditures when appropriate and possible. The total non-discretionary change in the General Fund budget is an increase of \$2.8 million.

Although non-discretionary expenditures have increased, proactive measures have been implemented by various City departments to increase efficiencies. In an attempt to reduce energy consumption and to save on gas and electricity expenditures, energy efficiency retrofits and improvements have been completed on City facilities. The City has used various funding methods in order to complete these projects, including entering into debt/loan agreements. Energy savings will be realized through these measures and are intended to cover the annual loan repayment obligation. Projected Fiscal Year 2006 savings in gas and electricity expenses are approximately \$150,000. This figure includes expenditures marked for debt payment. Once all debt payments are finalized annual savings should increase substantially.

### New and Annualized Facilities

Historically, the City has funded new facilities to levels that are appropriate for opening and maintaining operations. This is reflected by the \$3.5 million that was included in the Fiscal Year 2005 Annual Budget for new and annualized facilities including a new fire station and two new libraries. Due to organizational downsizing in the Annual Fiscal Year 2006 Budget, no new funding has been allocated specifically to the operation of new facilities with the exception of the annualization of the North University Branch Library and the opening of Fire Station #47 in Pacific Highlands Ranch. This is necessary in Fiscal Year 2006 as on-going revenue is not significant enough to fund the continuing cost of operations without corresponding reductions, let alone additions to new and annualized facilities.

This funding approach is not presented to discourage or prevent the opening of new facilities. It simply addresses the necessity to study alternative revenue sources or funding options for new facilities as well as existing facilities. Absent any new on-going revenues or further reductions in other areas of operations, existing City facilities may suffer impacts as the result of shifting some level of funding or personnel to operate new facilities.

Typically, new facilities are paid from restricted funds which only provide for the building and/or land expense, referred to as capital expense. These types of funds include Facilities Benefit Assessment (FBA) Fees, Development Impact Fees (DIF), and Community Development Block Grants (CDBG). The restrictions on these fees prevent, in most cases, the funding of operating expenses, thereby requiring the General Fund to support the operations of the facility once it is open. This could include a new library or a new playground or possibly an expanded grass field. Regardless of the facility, additional resources are needed or priorities must be shifted from other areas to operate these new facilities. In Fiscal Year 2006,

# Executive Summary

resources from other areas within the respective departments will be shifted to cover the requirements of operating new facilities.

The following identifies new facilities that are scheduled to open in Fiscal Year 2006. Depending on the impact, departments may be required to shift resources from other facilities, reduce the levels of operations or delay openings due to the lack of adequate resources available for operations.

## **Park and Recreation – Annualizations and New Facilities**

The Park and Recreation Department plans to open the following facilities in Fiscal Year 2006. The Annual Fiscal Year 2006 Budget does not include funding for additional staff and support for these facilities, and will require the department to shift resources from other areas to operate these facilities.

### **Annualizations**

- Breen Neighborhood Park
- Cabrillo Heights Comfort Station
- Doyle Community Park Comfort Station/Improvements
- Highlands Ranch Comfort Station
- Rancho Bernardo Dog Off-Leash Park
- Rancho Peñasquitos Skate Park

### **New Facilities**

- 252 Corridor Park
- Bay Terraces Joint Use Field
- Camino Ruiz Neighborhood Park
- Charles Lewis III Skate Park and Comfort Station
- Cherokee Point School Joint Use Field
- Chollas Creek Enhancement
- De Portola School Comfort Station
- George Stevens Senior Center
- Herbert Ibarra School Joint Use Field
- Keiller Neighborhood Park Comfort Station
- La Mirada School Joint Use Field
- Mead/Chollas School Joint Use Fields
- North Chollas (Phase II) Comfort Station
- Pacific Beach Elementary Joint Use Area
- Peñasquitos Town Centre Linear Park
- Serra Corner (Serra High School Joint Use Site)
- Torrey Del Mar Neighborhood Park
- University Gardens Comfort Station
- Vista Grande School Joint Use Field

## **Library – Annualizations and New Facilities**

The Library is scheduled to open the following facilities in Fiscal Year 2006. The Annual Fiscal Year 2006 Budget does not include additional funding for the new facilities; instead the department will be required to shift resources which may impact operations throughout the department. Monies have been budgeted for the annualization of the North University City Branch Library as it was scheduled to open in Fiscal Year 2005 and already had received operating funds.



# Executive Summary

## **North University City Branch Library - Annualization**

The annualization of the North University City Branch Library includes the addition of 8.70 positions and support costs totaling \$828,843. This project provides for a new 15,000 square foot branch library on a City-owned park site at Nobel Drive and Judicial Drive. Funding for the building of the library is provided by Facilities Benefit Assessment revenues. The facility is scheduled to open in Fiscal Year 2006 while receiving \$82,145 and 1.00 position in the Fiscal Year 2005 Annual Budget for operating expenses.

## **College Heights/Rolando Branch Library – New Facility**

This project provides for a 15,000 square-foot library on property acquired in the College Area at the corner of Reservoir Drive and Montezuma Street, to serve the College and Rolando communities.

## **Otay Mesa/Nestor Branch Library Expansion – New Facility**

This project provides for a 5,000 square-foot expansion to the existing 10,000 square-foot branch library, located at 3003 Coronado Avenue to provide more space to serve this growing community.

## **San Diego Fire-Rescue – New Facility**

The Annual Fiscal Year 2006 Budget includes the addition of 4.32 positions and support costs totaling \$623,825 for Fire Station #47, scheduled to open late in Fiscal Year 2006. This project provides for an approximate 10,000 square foot fire station to serve the Pacific Highlands Ranch community. This station will have one fire engine, one aerial ladder truck, and a battalion chief vehicle. This is the second of three fire stations that will be required to provide fire protection to the North City Planned Urbanizing Area.

## **General Fund - Department Funding**

### **Budget Requests**

This Annual Fiscal Year 2006 Budget represents a recovery package to address fiscal problems that have hindered the City of San Diego over the last several years. The cost of performing City services has continued to rise at a greater pace than increases in corresponding revenue. As competing priorities are weighed against available revenue, this on-going situation has forced many departmental budgets to be less than requested. This action is particularly clear in the Annual Fiscal Year 2006 Budget in which the organization is downsized and increases to the cost of priority operations are offset by other departmental reductions.

Because the City Charter requires the City Manager to present a balanced budget to the Mayor and City Council for consideration; and because there is insufficient forecasted on-going revenue to fund on-going expenses, reductions were required to all departments throughout the General Fund. This included elected officials' budgets and non-managerial department budgets. Needs identified in the respective budget requests are worthy of consideration and should not be overlooked simply because funding is not available; however, absent new on-going revenue, funding restorations can only be made with corresponding decreases in other General Fund departments.

# Executive Summary

The new *Unfunded Budget Request* section located in this same volume includes tables that compare department budget requests to funding amounts for the following departments:

- City Attorney
- City Clerk
- Library
- Park and Recreation
- Police
- San Diego Fire-Rescue

## Additions

Respective additions to departments comprise new or enhanced programs or services. Requests for public safety additions receive the highest funding consideration, however such requests cannot be assured of being funded. The increased General Fund revenue that is projected for Fiscal Year 2006 does not support significant increases for new or enhanced services. This budget contains minor additions to both the Police and San Diego Fire-Rescue Departments, but does not provide significant increases to programs or services beyond funding salary and retirement contribution requirements. Details of department funding additions (including transfers) can be found in the Significant Budget Adjustment section for each respective department in Volumes II and III.

The Annual Fiscal Year 2006 Budget contains an increase of \$1.6 million to begin funding the requirements set forth through the Mayor and City Council's approval of the Disclosure Ordinance on October 11, 2004. The allocations were determined based on original assessments and do not fund the entire amounts identified by the departments required to fully implement the Disclosure Ordinance. The funding is allocated as follows:

<u>Department</u>	<u>Amount</u>	<u>FTE</u>
City Attorney's Office	\$250,000	1.00
City Auditor and Comptroller's Office	\$500,000	4.00
City Treasurer's Office	\$750,000	6.00
Financial Management Department	\$143,000	1.40

## Reductions

As previously discussed this Annual Fiscal Year 2006 Budget contains components of a recovery program to address current financial difficulties. A primary component of the recovery program is the reduction of funding to General Fund departments which may impact service levels. These reductions are necessary to balance expenditure requirements against available on-going revenues and downsize the organization to focus on core services and better manage the cost of operations. These funding reductions may continue if the other components of the recovery program, specifically conservative multi-year labor agreements, and approval of new distinct revenue do not occur. Details of Department Funding Reductions (including transfers) can be found in the Significant Budget Adjustment section for each respective department in Volumes II and III. Additionally, departmental information regarding service level impacts resulting from these funding reductions can be found in the *Service Level Impacts* section within this same Volume.

Total General Fund department funding reductions for Fiscal Year 2006 are approximately \$23.0 million, or the equivalent of 2.8 percent of the Fiscal Year 2005 General Fund budget. Details of reductions to the departments listed below in addition to other department reductions are provided in the *Service Level Impact* section of this budget volume. Although these planned reductions have aided in the development

# Executive Summary

of a balanced budget, further reductions would be required if the Police and Fire-Rescue needs were to be fully funded.

## **Park and Recreation**

The Park and Recreation has reductions of 52.76 positions totaling \$3.3 million. The total position reduction combined with significant reductions in non-personnel expenses will require the department to reallocate existing resources to meet community needs. These reductions and related resource reallocations will not necessitate the complete closure of facilities or the neglect of grounds maintenance in parks, but the reductions will likely impact daily operations and functions.

## **Library**

The Annual Fiscal Year 2006 Budget includes reductions to the Library resulting in a decrease of 19.23 General Fund positions and \$2,949,947 in non-personnel expenditures of which \$613,127 was previously allocated to purchase new material or replace aged or damaged items. Although staffing and support is proposed to be added to the department for the annualization of one new facility, additional requirements for other new facilities will need to be balanced against the remaining resources as provided for in the Fiscal Year 2006 Annual Budget.

In addition to these reductions, on April 18, 2005 the Mayor and City Council approved the City Manager's recommendation to suspend the Library Ordinance for Fiscal Year 2006. The Library Ordinance would have required the City Manager to propose 6 percent of the General Fund budget be allocated to the Library system. This would have resulted in an additional \$15.2 million being provided to the Library system at the expense of other General Fund departments, including Police and Fire-Rescue.

## **Community and Economic Development**

At the beginning of Fiscal Year 2005, there were 9 budgeted Community Service Centers and 2 more were funded midyear for a total of 11 operational centers. In the Fiscal Year 2006 budget, five of these centers were cut leaving the six remaining open in the Clairemont, Navajo, Peninsula, Rancho Bernardo, San Ysidro and Scripps Ranch areas. Budget cuts for Fiscal Year 2006 for the Community and Economic Development Department would result in a reduction of 30.70 General Fund budgeted positions due to a reduction of 8.00 positions in the Community Services Centers; a transfer of 22.70 positions due to the Redevelopment Division being moved to a special fund and a \$2.6 million reduction to the "6 to 6" Extended School Day Program resulting in a total savings of \$5,789,226. The "6 to 6" budget includes one year of funding for five private schools that meet free lunch eligibility requirements and also includes funding for administration and monitoring of the program.

## **General Fund Restructuring/Reorganization**

### **Family Justice Center**

The Annual Fiscal Year 2006 Budget reflects the creation of one new department and the reorganization of General Fund resources to staff and fund this new department. Since October 2002, the Family Justice Center has operated as a community service and public safety tool administered by the City Attorney's Office. For Fiscal Year 2006, the Family Justice Center will be managed as a separate entity and budgeted as a separate department. In an attempt to realize a near cost neutral impact to the General Fund, it is recommended to transfer four positions out of the City Attorney's Office and one position from the Police Department which is consistent with the Mayor and City Council direction when this department was created on November 29, 2004. The five positions identified include 1.00 Deputy City Attorney (reclassified to a Department Director), 1.00 Associate Management Analyst, 1.00 Assistant

# Executive Summary

Management Analyst, 1.00 Legal Secretary (reclassified to an Executive Secretary), and 1.00 Clerical Assistant II.

## General Fund - Financial Summary

### Economic Environment

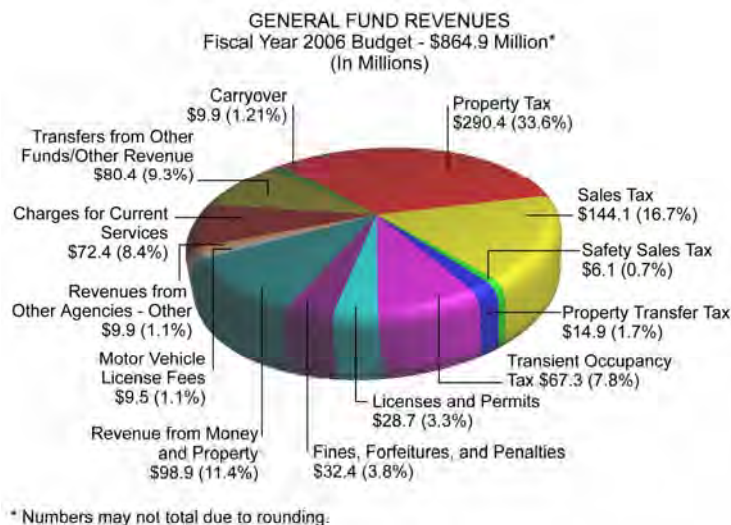
According to the San Diego Regional Chamber of Commerce (SDRCC) Economic Forecast, the San Diego local economy will remain strong in Fiscal Year 2006 with the Gross Regional Product (GRP) growth of approximately 6.6 percent. There are concerns among local economists about the possibility of a drop in housing prices. The Economic Research Bureau of the SDRCC expects the return of the housing market to single digit growth in calendar year 2006.

The *Financial Summary* section in this same volume discusses the Fiscal Year 2006 Economic Forecast in more detail.

### General Fund Revenues

Projecting revenues is the first step in building a balanced budget; the amount of revenue that is expected to be received in the upcoming fiscal year will determine the amount that can be expended. General Fund revenues pay for many of the direct services San Diego residents use every day such as police, fire, parks, refuse collection and libraries. For Fiscal Year 2006, General Fund revenues are budgeted at \$864.9 million. Key economic indicators in San Diego County are helpful in formulating revenue estimates. Statewide and national economic trends may also impact revenue sources, along with policy decisions made at the State and Federal levels; however, specific attention has been paid to local trends when forecasting revenue for Fiscal Year 2006.

Four major General Fund revenue sources, Property Tax, Sales Tax, Transient Occupancy Tax (TOT), and Franchise Fees, comprise approximately 65.4 percent of total General Fund revenue. These revenues are discussed in detail in the Financial Summary General Fund Revenue section of this volume.



Provided below are the major revenue sources with estimated growth rates utilized in the preparation of the Fiscal Year 2006 Annual Budget. Forecasting of these revenue growth rates is important in determining funding for most General Fund expenditures. Each revenue is forecasted independently utilizing information about historical trends and receipts and state and national economic forecasts,

# Executive Summary

including the UCLA Anderson Business Forecast and DRI/Global Insight. Note that for the purposes of revenue forecasting, budgeted growth rates are applied to year-end projections, and do not represent the percentage increase from one year's budget to the next.

## Major Revenues

Major Revenue Sources	FY 2003 Budgeted Growth Rate	FY 2004 Budgeted Growth Rate	FY 2005 Budgeted Growth Rate	FY 2006 Budgeted Growth Rate
Property Tax	9.0%	8.0%	8.0%	7.5%
Sales Tax	4.0%	3.0%	5.0%	4.5%
Transient Occupancy Tax	6.0%	5.5%	6.0%	5.0%
Franchise Fees				
SDG&E <sup>(1)</sup>	0.0%	5.0%	5.0%	7.5%
Time Warner	4.0%	6.0%	5.0%	7.5%
Cox	5.0%	5.0%	5.0%	7.5%

<sup>(1)</sup> Does not reflect growth of the Utility Underground Surcharge

## Significant Changes to the Annual Fiscal Year 2006 Total City Budget

### Total City Revenues and Expenditures

The City of San Diego's Total Combined Annual Fiscal Year 2006 Budget reflects revenues and expenditures equaling \$2.4 billion.

Five types of revenue funds compose the majority of the Fiscal Year 2006 Annual Budget: General Fund, Enterprise Funds, Special Revenue Funds, Capital Improvement Funds, and Debt Service and Tax Funds. The following chart shows a specific breakdown of funds:

### Total City Fund Changes

	FY 2006 Final	Change from FY 2005
General Fund	\$ 864,919,912	\$ 47,486,923
Enterprise Funds	\$ 832,616,481	\$ 61,708,132
Capital Improvement Funds	\$ 389,648,808	\$(193,643,543)
Special Revenue Funds	\$ 308,157,337	\$ 8,926,378
Debt Service and Tax Funds	\$ 11,101,202	\$ (2,035,770)
<b>TOTAL</b>	<b>\$2,406,443,740</b>	<b>\$ (77,557,880)</b>

# Executive Summary

## General Fund

Departments within the General Fund provide and maintain essential core community services such as public safety, park and recreation, library services, and refuse collection as well as vital support functions such as financial management. These core services are primarily provided for by major revenues sources that include Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees. The General Fund Annual Fiscal Year 2006 Budget is \$864.9 million which represents an increase of \$47.5 million, or a 5.81 percent increase from the Fiscal Year 2005 Annual Budget.

## Enterprise Funds

Enterprise Funds account for specific services that are funded directly through user fees. Examples of these funds include Water, Metropolitan Wastewater, Development Services, Refuse Disposal and Recycling. Typically these funds are intended to be fully self-supporting and are not subsidized by the General Fund. The Fiscal Year 2006 Annual Budget for Enterprise Funds is \$832.6 million representing an increase of \$61.7 million, or an 8.00 percent increase from the Fiscal Year 2005 Annual Budget. Significant increases include approximately \$75.8 million for debt service payments, \$3.6 million for environmental mitigation support, \$6.1 million for Bid-to-Goal support, and \$4.9 million for street/trench restoration.

## Capital Improvement Funds

The Capital Improvements Program (CIP) Budget supports construction projects such as the development of parkland, the construction of a sewer pump plant, the installation of a traffic signal and street lighting system, or the construction or remodeling of a City facility. These monies are derived from sources such as sewer and water fees, a half-cent local sales tax for transportation improvements (TransNet), development impact fees, State and federal grants, and/or the issuance of bonds. The Annual Fiscal Year 2006 Capital Improvements Program (CIP) Budget totals \$389.6 million, which is a decrease of \$193.6 million or a 33.2 percent reduction from the Annual Fiscal Year 2005 Budget. Significant reductions include approximately \$20.7 million in Engineering and Capital Projects, \$51.7 million in Water, and \$116.7 million in Metropolitan Wastewater. These considerable reductions are in part due to the City's absence from the bond market although the City is currently considering private placement to fund the highest priority projects.

## Special Revenue Funds

Special Revenue Funds account for revenues that are received for specifically identified purposes. Some of the larger examples include TransNet, Gas Tax, and Special Promotional Programs. The Fiscal Year 2006 Annual Budget for Special Revenue Funds is \$308.2 million representing an increase of \$8.9 million, or a 2.98 percent increase from the Fiscal Year 2005 Annual Budget. The fund increase stems from adjustments made to departments such as Special Promotional Programs, QUALCOMM Stadium, and PETCO Park. The adjustments include, but are not limited to, a scheduled increase of approximately \$7.4 million for PETCO Park, Balboa Park/Mission Bay improvements, Convention Center Complex, and Trolley Extension Reserve debt service payments.

The Open Space debt funded from the Environmental Growth Fund 2/3 is included in the Special Revenue Funds category. Approximately \$24.4 million of that debt was redeemed in Fiscal Year 2005 due to the securitization of the State Vehicle License Fee receivables. The outstanding principal debt as of June 30, 2005 is \$1.5 million.

## Debt Service and Tax Funds

Debt Service Funds are used for the payment of principal and interest on the General Obligation Public Safety Communication Bonds, and for maintenance of zoological exhibits. Tax Funds contain monies that are borrowed from the sale of Tax and Revenue Anticipation Notes (TRANS) on a short-term basis to

# Executive Summary

meet the cash requirements of the City prior to the receipt of property taxes. Related costs are budgeted in the fund. The Fiscal Year 2006 Annual Budget for Debt Service and Tax Funds is \$11.1 million representing a decrease of \$2.0 million, or a decrease of 15.5 percent that is primarily attributed to a reduction in prior-year expenditures in the Zoological Exhibits Fund. In Fiscal Year 2005, approximately \$3.3 million was budgeted as prior year expenditures as a result of carryover funding from the prior year. Since all available funding was expended in Fiscal Year 2005, no prior year expenditures are budgeted in Fiscal Year 2006.

## Total City - Personnel

The Annual Fiscal Year 2006 Budget includes a total of 10,857.77 positions; 6,765.36 of those positions are budgeted within the General Fund. The following chart presents a breakdown of positions budgeted within each major fund:

### Total City Position Changes

	Annual FY 2005	Final FY 2006	Change
Total General Fund	6,955.31	6,765.36	(189.95)
Total Special Revenue Funds	619.35	585.43	(33.92)
Total Sewer Funds	1,045.36	1,055.18	9.82
Total Water Funds	857.87	889.39	31.52
Total Other Enterprise Funds	999.40	958.25	(41.15)
Total Internal Service Funds	544.10	530.41	(13.69)
Total Other Funds	74.75	73.75	(1.00)
<b>Total Budgeted Positions</b>	<b>11,096.14</b>	<b>10,857.77</b>	<b>(238.37)</b>

Please refer to Budget Summary Schedule II in the Financial Summary section and in the respective department detail in Volumes II and III for specific detail on position adjustments.

## Total City - Retirement System and Retiree Healthcare Contribution

The total employer budgeted contribution to the retirement system for all City funds in the Annual Fiscal Year 2006 Budget is approximately \$218.1 million when combining the four elements of City contributions. Of the \$218.1 million, \$163.5 million is budgeted for the City's contribution to the Retirement System for both General Funds and Non-General Funds. The City will contribute \$19.9 million as part of the negotiated employee's contribution and an estimated \$18.2 million which will be used to support a leverage mechanism to improve the retirement system's funded ratio. In addition, \$16.5 million will be paid for the Retiree Health Care contribution that is no longer funded from retirement funds. This reflects the cost of retiree health for the current fiscal year only and does not fund future retiree health care liabilities. The chart below reflects the budgeted pension contributions for the Fiscal Year 2006 Annual Budget. As described above, it indicates the City's share of the Fiscal Year 2006 retirement funding, the City's contribution toward the employee's share of retirement funding, the savings the City realizes by employees contributing a greater percentage to the retirement system beginning July 1, 2005 or a salary reduction, and the amount of City funding for retiree healthcare.

# Executive Summary

In Fiscal Year 2006, both the City and employee pension contribution estimates are based on actuary estimates from the Fiscal Year 2004 valuation which assume 100 percent funding of the new pension liability amortized over a 30 year period. Please refer to the Retirement System Section, presented later in this document, for more detail. This is a different funding mechanism than the \$130 million payment that was guaranteed in Fiscal Year 2005 due to the settlement reached in Gleason vs. City of San Diego.

The Fiscal Year 2006 pension contributions identified below do not include funding for possible Pension Obligation Bonds. The table also does not reflect required employee contributions to the Retirement Fund.

## Fiscal Year 2006 City Pension Contributions

Fund	City Contribution	City Paid Employee Portion	Pension Liability	City Paid Retiree Health
General Fund	\$118,929,787	\$13,575,872	\$11,783,566	\$10,392,732
Non-General Funds	\$44,546,455	\$6,363,722	\$6,453,798	\$6,092,491
<b>TOTAL</b>	<b>\$163,476,242</b>	<b>\$19,939,594</b>	<b>\$18,237,364</b>	<b>\$16,485,223</b>

## State Budget Impacts

In Fiscal Year 2006, the State of California will again cause reductions in revenue to the City of San Diego. Impacts to the General Fund may total over \$22 million in revenue reductions including \$16.9 million in property tax diversion and \$5.2 million for booking fee reimbursement. The \$16.9 million property tax diversion reflects the City's second and final year impact of the Governor's State recovery plan. The Annual Fiscal Year 2006 Budget includes \$5.2 million of booking fees reimbursement from the State.

The State Budget also includes the elimination or reduction of other programs and grants that would affect the City's Non-General Funds. All of the potential impacts to the City of San Diego are summarized in the table below.

### State Impacts

FY 2006 (July 1, 2005)	Budget
<b>General Fund</b>	
Property Tax Diversion	(\$16.9 million)
Booking Fees Reimbursement	(\$ 5.2 million)
<b>Non-General Fund</b>	
Library Foundation	(\$ 0.1 million)
Arts and Culture grants	(\$ 0.1 million)
Redevelopment	(\$ 4.9 million)
<b>Total Citywide Impact</b>	<b>(\$27.2 million)</b>



# Executive Summary

## City Reserves

The City maintains numerous reserve amounts for both operating and capital expenses. These include reserves in the General Fund, Debt Service and Tax Funds, Special Revenue Funds, Enterprise Funds, Capital Improvement Funds, and Internal Service Funds that can only be used for their intended purpose. Further detailed amounts are listed in the Reserves column in Schedule V, "Summary of Revenues, Expenditures and Fund Balances". Some of the more significant Non-General Fund reserves are described in the respective departments' commentaries in Volumes II and III. Reserves used to support General Fund operations include the Allocated Reserve and the Unappropriated Reserve.

The Allocated Reserve is used to carry forward current year funds for projects that could not be completed prior to the end of the fiscal year. As part of the Fourth Quarter Budget Adjustment, the Mayor and City Council are requested to authorize the City Auditor and Comptroller to carry forward funds for specific projects.

The Unappropriated Reserve, also known as the General Fund reserve, was established to fund major General Fund emergencies and to assist in maintaining a favorable bond rating. Specific expenditures are not budgeted within this reserve and no specific legal guidance or policy restrictions are placed on the use of these funds. Mayor and City Council authorization is necessary to expend these funds.

## Unappropriated Reserve

This annual budget has not been balanced by using one-time transfers from the General Fund Unappropriated Reserve. Consistent with Council Policy 100-20 the final budget includes an increase to the unappropriated reserve of approximately \$3.1 million, which will bring the total to \$36.0 million. The Council Policy strives to reach a goal of a 5 percent General Fund Unappropriated Reserve by Fiscal Year 2014. The policy also includes a requirement to make higher contributions in years when growth of the General Fund exceeds 2 percent. In those years, contributions to the unappropriated reserve should be 10 percent of all revenues above the 2 percent growth. As shown below, contributions for the General Fund unappropriated reserve will increase the total reserve as a percentage of the General Fund and advances the goal of Council Policy 100-20 to achieve a 5 percent reserve. The reserve remains untapped in this Budget, reserved for emergencies such as natural disasters.

Fiscal Year 2005 Unappropriated Reserve Balance	\$32,886,371
Percentage of General Fund	4.02%
Fiscal Year 2006 Unappropriated Reserve Balance	\$36,000,197
Percentage of General Fund	4.16%

## Unfunded Needs

Beyond what has been presented in this annual budget, there are continuing needs throughout City operations that warrant additional funding in Fiscal Year 2006 and beyond. As this budget represents a recovery program, including funding reductions, many of these needs will remain unfunded. It is anticipated that in conjunction with the components of the recovery program and following the plan set forth in the Multi-Year Financial Forecast, action toward addressing some of these unfunded needs may be possible as early as Fiscal Year 2007.

Items that are not fully funded at this time include, but are not limited to:

- Public Safety Needs – overtime, equipment, staffing
- Basic Operating Needs – to provide customer service at expected levels of the community
- Deferred Maintenance

# Executive Summary

- The Strategic Framework – the infrastructure needed to support the “City of Villages” concept
- National Pollution Discharge Elimination System (NPDES) Permit – to fund efforts to meet permit requirements
- Underground Storage Tanks
- Unfunded Actuarial Accrued Liability

In Fiscal Year 2004 the City Manager released an Unfunded Needs Report to provide greater detail regarding unfunded needs in City Departments. The Unfunded Needs Report provided a comprehensive overview of the basic needs that are characteristic of a large metropolitan city but are unmet due to the competing priorities for available funding. Given the low revenue base of the City of San Diego, funding decisions are largely determined based on available revenue, which may not coincide with departments’ operating needs. The report is intended as a guide in moving forward while addressing the City’s basic operating requirements and will be updated as needed.

## Conclusion

This annual budget provides a fresh start in addressing the City’s fiscal issues, not in immediate steps, but it initiates steps to begin to solve the City’s fiscal challenges. The Mayor and City Council are initiating change in the budgeting process and setting the course by implementing the Multi-Year Financial Forecast and funding only necessary obligations and core services.

By doing so, the Mayor and City Council can help restore San Diego’s fiscal health and integrity. It will not happen over night, but change will occur as the City is aligned and committed to truly setting the foundation for meeting the needs of its citizens.