

Executive Summary



Introduction

The Fiscal Year 2011 Proposed Budget continues the corrective fiscal actions that began in Fiscal Year 2007 and continued through Fiscal Years 2008, 2009, and 2010. In October 2009, the Mayor released an update to his Five-Year Financial Outlook, which projected a General Fund shortfall of \$179 million in Fiscal Year 2011. In order to mitigate this deficit, the Mayor presented a plan to City Council, and in December 2009 the City Council took early steps to address the projected Fiscal Year 2011 deficit and adopted the Fiscal Year 2011 General Fund Proposed Budget. Subsequent to the City Council adopting the Fiscal Year 2011 General Fund Proposed Budget, and as a result of the

continued decline in General Fund revenues, slow economic recovery, and the increased annual payment for the City’s annual pension contribution, a projected deficit of approximately \$28.0 million was identified for the General Fund. This new deficit has been addressed in the Fiscal Year 2011 Proposed Budget through additional measures described in this section.

City Budget Overview

The City of San Diego’s Fiscal Year 2011 Proposed Budget of \$2.85 billion is comprised of seven fund type categories: General Fund, Debt Service and Tax Funds, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Capital Improvements Program, and other funds.

Table 1 shows the change in budgeted expenditures from Fiscal Year 2010 to Fiscal Year 2011 by fund type.

Table 1: Total City Expenditure Changes Fiscal Year 2010 - 2011 by Fund Type

Fund Type	FY 2010 Annual Budget	FY 2011 Proposed Budget	Change	Percent Change
General Fund	\$ 1,129,706,375	\$ 1,092,264,218	\$ (37,442,157)	-3.3%
Debt Service and Tax Funds	\$ 3,654,129	\$ 3,645,116	\$ (9,013)	-0.2%
Special Revenue Funds ¹	\$ 343,052,585	\$ 361,779,708	\$ 18,727,123	5.5%
Enterprise Funds	\$ 863,068,584	\$ 913,075,370	\$ 50,006,786	5.8%
Internal Service Funds ²	\$ 126,322,518	\$ 106,187,104	\$ (20,135,414)	-15.9%
Capital Improvements Program ³	\$ 453,241,092	\$ 332,173,557	\$ (121,067,535)	-26.7%

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Table 1: Total City Expenditure Changes Fiscal Year 2010 - 2011 by Fund Type (Cont'd)

Fund Type	FY 2010 Annual Budget	FY 2011 Proposed Budget	Change	Percent Change
Other Funds	\$ 39,295,564	\$ 38,900,482	\$ (395,082)	-1.0%
TOTAL	\$ 2,958,340,847	\$ 2,848,025,555	\$ (110,315,292)	-3.7%

- ¹ The Fiscal Year 2010 Annual Budget and the Fiscal Year 2011 Proposed Budget includes all Maintenance Assessment Districts (MADs).
- ² The Fiscal Year 2010 Annual Budget and the Fiscal Year 2011 Proposed Budget includes the fund type restructure of the Energy Conservation Fund from Special Revenue Funds to Internal Service Funds.
- ³ The Fiscal Year 2010 Annual CIP Budget excludes grants and other funding sources requiring additional City Council action. This is a change from the Fiscal Year 2010 Annual CIP Budget publication and is due to new requirements resulting from the transition to SAP. The Fiscal Year 2011 Proposed Budget excludes continuing (or prior year) appropriations for capital projects that span multiple years.

Figure 1 displays the Fiscal Year 2011 Proposed Expenditure Budget by fund type.

Figure 1: Fiscal Year 2011 Proposed Expenditure Budget by Fund Type

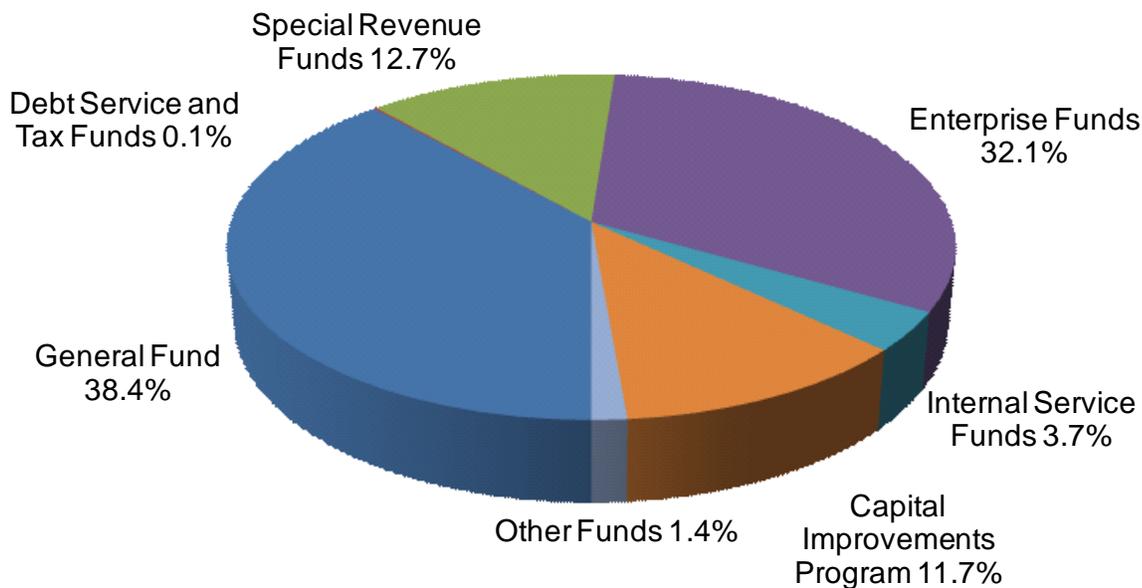


Table 2 presents the changes in budgeted revenues from Fiscal Year 2010 to Fiscal Year 2011 by fund type.

Table 2: Total City Revenue Changes Fiscal Year 2010 - 2011 by Fund Type

Fund Type	FY 2010 Annual Budget	FY 2011 Proposed Budget	Change	Percent Change
General Fund	\$ 1,129,706,375	\$ 1,092,264,218	\$ (37,442,157)	-3.3%
Debt Service and Tax Funds	\$ 3,322,841	\$ 3,215,639	\$ (107,202)	-3.2%
Special Revenue Funds ¹	\$ 376,195,054	\$ 330,653,062	\$ (45,541,992)	-12.1%

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Table 2: Total City Revenue Changes Fiscal Year 2010 - 2011 by Fund Type (Cont'd)

Fund Type	FY 2010 Annual Budget	FY 2011 Proposed Budget	Change	Percent Change
Enterprise Funds	\$ 1,078,240,410	\$ 1,139,753,007	\$ 61,512,597	5.7%
Internal Service Funds ²	\$ 129,426,648	\$ 107,969,821	\$ (21,456,827)	-16.6%
Capital Improvements Program	\$ -	\$ -	\$ -	0.0%
Other Funds	\$ -	\$ -	\$ -	0.0%
TOTAL³	\$ 2,716,891,328	\$ 2,673,855,747	\$ (135,879,385)	-4.8%

¹ The Fiscal Year 2010 Annual Budget and the Fiscal Year 2011 Proposed Budget includes all Maintenance Assessment Districts (MADs).

² The Fiscal Year 2010 Annual Budget and the Fiscal Year 2011 Proposed Budget includes the fund type restructure of the Energy Conservation Fund from Special Revenue Funds to Internal Service Funds.

³ Non-General Fund operating revenues may be less than operating expenditures due to the use of fund balance.

General Fund

Departments within the General Fund provide core community services, such as public safety (including police and fire protection), 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.



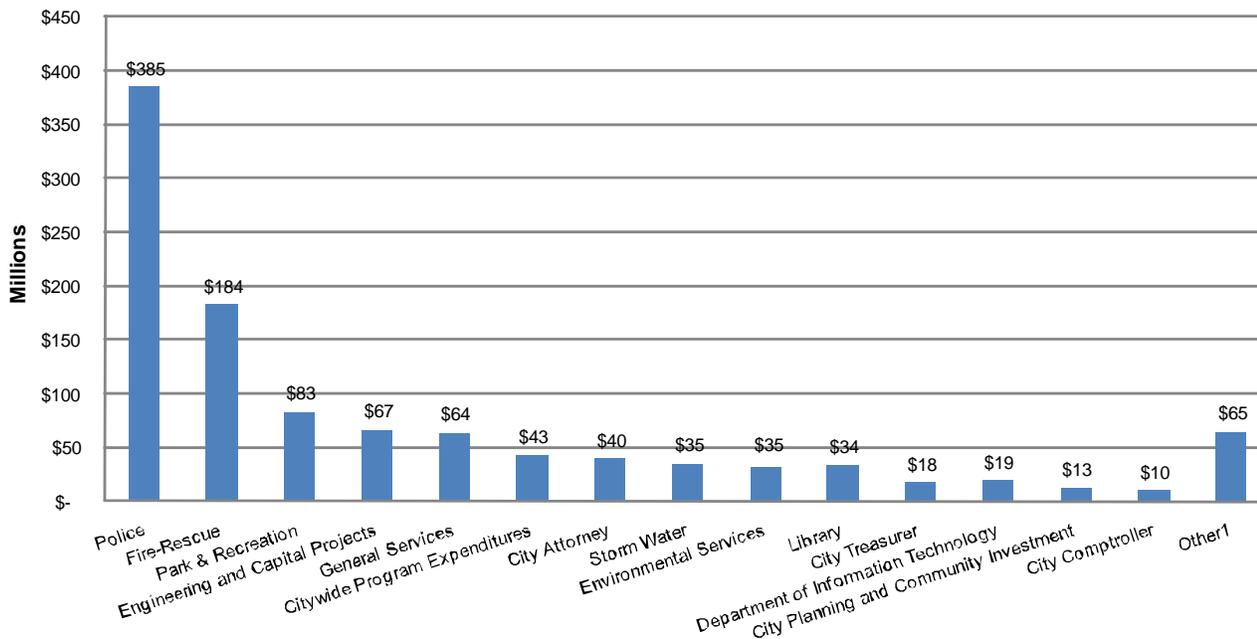
The City's Fiscal Year 2011 Proposed Budget reflects General Fund revenues and expenditures totaling \$1.09 billion, representing a decrease of \$37.4 million or

a 3.3 percent decline over the Fiscal Year 2010 Annual Budget. The Fiscal Year 2011 Proposed General Fund Budget includes 7,060.48 budgeted full-time equivalent (FTE) positions, a decrease of 336.44 FTE positions from the Fiscal Year 2010 Annual General Fund Budget. The net decrease in General Fund positions is primarily due to the reduction of 485.16 FTE positions as part of the Fiscal Year 2010 Revised Budget approved by City Council that has been incorporated in the Fiscal Year 2011 Proposed Budget. In addition, included in the Fiscal Year 2011 Proposed General Fund Budget is the addition of positions for City facilities that were partially staffed in the prior fiscal year and 135.61 FTE positions related to the conversion of hourly and temporary wage expenses to FTE positions.

Figure 2 summarizes the Fiscal Year 2011 Proposed General Fund budgeted expenses by department. Only those departments with a total General Fund expenditure budget of over \$10.0 million are displayed. All other General Fund departments are combined in the "Other" category. For a complete review of the expenditures by department in the General Fund, refer to the Financial Summary and Schedules Section of this Volume.

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Figure 2: Fiscal Year 2011 Proposed General Fund Expenditures by Department



¹ The Other category includes: City Council, Neighborhood Code Compliance, Personnel, Community & Legislative Services, City Clerk, Purchasing & Contracting, Financial Management, Administration, Real Estate Assets, City Auditor, Debt Management, Human Resources, Reservoir Recreation, Business Office, Administration, Office of Homeland Security, Office of the IBA, Ethics Commission, Office of the Chief Financial Officer, Office of the Mayor and COO, Office of the Assistant COO, and Public Works.

Debt Service and Tax Funds

Debt Service Funds are used for the payment of principal and interest on the General Obligation Bonds for Public Safety Communication projects. The Tax Fund contains monies that are borrowed from the sale of Tax and Revenue Anticipation Notes (TRANs) on a short-term basis to meet the cash-flow requirements of the City prior to the receipt of property tax revenues. The Fiscal Year 2011 Proposed Budget for Debt Service and Tax Funds totals \$3.6 million. Other debt service obligations of the City related to the financing and issuance of bonds are budgeted within the departments' operating budgets.

Special Revenue Funds

Special Revenue Funds account for revenues that are received for specifically identified purposes. The larger funds include TransNet, Gas Tax, and Special Promotional Programs. The Fiscal Year 2011 Proposed Operating Budget for Special Revenue Funds is \$361.8 million, representing an increase of \$18.7 million or 5.5 percent from the Fiscal Year 2010 Annual Budget. The net increase of \$18.7 million is due to: 1) budgeting the Utilities Underground Program operating expenditures in the operating budget; in prior years these expenditures were budgeted in the City's Capital Improvement Program; and 2) the decrease in expenditures in the Special Promotional Programs Fund related to the decline in transient occupancy tax revenue.

Enterprise Funds

Enterprise Funds account for specific services that are funded directly through user fees. These funds include Water, Metropolitan Wastewater, Development Services, Refuse Disposal, Recycling, Golf Course, and Airports. Typically, these funds are intended to be fully self-supporting and are not

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subsidized by the General Fund. The Fiscal Year 2011 Proposed Budget for all Enterprise Funds is \$913.1 million, representing an increase of \$50.0 million or 5.8 percent from the Fiscal Year 2010 Annual Budget. This increase is primarily the result of the following changes:

- Public Utilities budget increased by \$57.6 million due to the increase in water rates set by the San Diego County Water Authority.
- Other Enterprise Fund departments decreased by \$7.6 million.

Internal Service Funds

Internal Service Funds are created to finance and account for services provided by one City department to another City department. Services provided by Internal Service Fund departments are paid by fees or fund transfers. The Fiscal Year 2011 Proposed Budget for Internal Service Funds totals \$106.2 million, which is a decrease of \$20.1 million or 15.9 percent from the Fiscal Year 2010 Annual Budget. The net decrease of \$20.1 million is primarily due to significant reductions in the Fleet Replacement Fund.

Capital Improvement Funds

The Capital Improvements Program (CIP) budget allocates existing funds and anticipated revenues to rehabilitate, restore, improve, enhance, and increase the City's capital facilities. This budget supports the design and construction of a wide range of infrastructure improvement projects and other significant capital infrastructure investments. The Fiscal Year 2011 Proposed CIP Budget totals \$332.2 million. This is a reduction of \$121.1 million or 26.7 percent from the Fiscal Year 2010 Annual CIP Budget of \$453.2 million¹.

The Fiscal Year 2011 CIP budget process incorporates two significant changes which contribute to the reduction between Fiscal Years 2010 and 2011 budgets. Projects are budgeted in the Fiscal Year 2011 Proposed CIP Budget to conform to the Budget Policy (Council Policy 000-02). As a result, costs that are not capital in nature have been moved to operating budgets. In addition, a new feature has been added to the Fiscal Year 2011 budget to identify and separate funding that requires additional City Council action or is uncertain to be received in the upcoming fiscal year. An additional \$309.8 million of funding for CIP projects during Fiscal Year 2011 is anticipated, not budgeted, and shown under the heading "Fiscal Year 2011 Anticipated" in Volume III of the Fiscal Year 2011 Proposed Budget.

Deferred capital projects and Americans with Disabilities Act (ADA) obligations remain two of the eight significant areas identified in the Five-Year Financial Outlook. Since Fiscal Year 2008, approximately \$142.0 million has been appropriated for facilities, streets, storm drain and other deferred capital projects, funded by proceeds from land sales, bond financing, and Proposition 1B funding. A second request for bond financing is anticipated to come before City Council in late Fiscal Year 2011 or Fiscal Year 2012 to continue efforts to address the City's approximately \$900 million backlog of deferred projects. In addition, \$30.0 million of land sale proceeds has been appropriated to support ADA improvements since Fiscal Year 2008. Until the real estate market improves, the City is not budgeting additional ADA projects in Fiscal Year 2011.

Summary of Major General Fund Budget Changes

This section shows the major contributors to the 3.3 percent decline in revenues and expenditures in the General Fund in the Fiscal Year 2011 Proposed Budget. The four largest revenue sources in

¹ The Fiscal Year 2010 Annual CIP Budget excludes grants and other funding sources requiring additional City Council action. This is a change from the Fiscal Year 2010 Annual CIP Budget publication and is due to new requirements resulting from the transition to SAP (OneSD).

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major General Fund revenues – property tax, sales tax, transient occupancy tax (TOT), and franchise fees – account for approximately \$710.8 million or 65.1 percent of the total General Fund revenues. The decline in these four major revenues in the Fiscal Year 2011 Proposed Budget accounts for approximately \$31.6 million or 84.3 percent of the total General Fund decline of \$37.4 million compared to the Fiscal Year 2010 Annual Budget. In Fiscal Year 2011 property tax is budgeted at \$390.1 million, an increase of \$7.4 million or 1.9 percent from the Fiscal Year 2010 Annual Budget factoring in a slightly improving residential housing market and a continually weak commercial real estate market. Sales tax is budgeted at \$187.5 million, which represents a decrease of \$22.7 million or 10.8 percent from the Fiscal Year 2010 Annual Budget due to the decline in per capita income and consumer spending, and the high unemployment rate in the City. TOT is budgeted at \$66.1 million, a decrease of \$9.8 million or 12.9 percent from the Fiscal Year 2010 Annual Budget due to the decline in local tourism. Franchise Fees are budgeted at \$67.2 million, a decrease of \$6.5 million or 8.9 percent from the Fiscal Year 2010 Annual Budget due to a decline in refuse haulers tonnage.

The decrease in expenditures is mainly due to the elimination of 485.16 FTE positions and reduction in non-personnel expenditures approved by City Council during the adoption of the Fiscal Year 2011 Proposed General Fund Budget in December 2009. In addition, other General Fund budget changes include an increase in the City’s Annual Required Contribution (ARC) to the Retirement System of approximately \$55.3 million and the reduction of contracts and equipment outlay non-personnel expenditures.

Table 3 displays the overall net changes to both General Fund revenues and expenditures from the Fiscal Year 2010 Annual Budget to the Fiscal Year 2011 Proposed Budget.

Table 3: General Fund Revenue Adjustment Over Fiscal Year 2010 Annual Budget

Major Revenue Categories	(In Millions)
Property Tax	\$ 7.4
Sales Tax	\$ (22.7)
Safety Sales Tax	\$ (0.8)
Transient Occupancy Tax	\$ (9.8)
Property Transfer Tax	\$ 0.2
Franchise Fees	\$ (6.5)
Interest Earnings	\$ (2.4)
Motor Vehicle License Fees	\$ (0.8)
Other Revenue Increases and Budgetary Adjustments	\$ (2.0)
TOTAL REVENUE REDUCTION¹	\$ (37.4)

¹ Refer to General Fund Revenue section of this document for more detailed information regarding General Fund revenue decline.

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Table 3: General Fund Expenditure Adjustment Over Fiscal Year 2010 Annual Budget (Cont'd)

Major Expenditure Adjustments	(In Millions)
Salaries and Wages	\$ (42.7)
Retirement Annual Required Contribution (ARC)	\$ 55.3
Other Fringes	\$ (9.8)
Supplies	\$ (1.7)
Contracts	\$ (21.2)
Information Technology	\$ (5.3)
Capital Expenditures	\$ (2.6)
Other Expenditures	\$ (9.4)
TOTAL EXPENDITURE REDUCTION	\$ (37.4)

Table 4 represents the expenditure change in the General Fund from the Fiscal Year 2010 Annual Budget to the Fiscal Year 2011 Proposed Budget.

Table 4: General Fund Expenditure Summary Fiscal Years 2010-2011

	FY 2010 Annual Budget	FY 2011 Proposed Budget
Total General Fund Budget	\$ 1,129,706,375	\$ 1,092,264,218
Percent Change from Previous Year	-5.3%	-3.3%

Table 5 identifies the allocation of General Fund dollars to the Police and Fire-Rescue Departments compared to the other General Fund departments. In Fiscal Year 2011, the General Fund proposed budget decreased by approximately \$37.4 million or 3.3 percent from Fiscal Year 2010, with the Police and Fire-Rescue Departments receiving approximately 52.1 percent of the total General Fund expenditures and other General Fund departments receiving 47.9 percent of the total General Fund expenditures.

Table 5: General Fund Expenditure Summary Fiscal Years 2010-2011 by Category

	FY 2010 Annual Budget	FY 2011 Proposed Budget
Police and Fire-Rescue Budgets	\$ 589,351,139	\$ 568,987,602
Percent of Total General Fund Budget	52.2%	52.1%
Other General Fund Department Budgets	\$ 540,355,236	\$ 523,276,616
Percent of Total General Fund Budget	47.8%	47.9%

Total City Personnel

The Fiscal Year 2011 Proposed Budget includes a total of 10,230.69 FTE positions with 7,060.48, or 69.0 percent, of these positions budgeted within the General Fund. **Table 6** presents the change in

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positions from Fiscal Year 2010 to Fiscal Year 2011 including positions for the Maintenance Assessment Districts by fund type.

Table 6: Total City FTE Position Changes Fiscal Years 2010 - 2011

Fund Type	FY 2010 Annual Budget	Additions ¹	Reductions	Reorganizations	FY 2011 Proposed Budget	Change	Percent Change
General Fund	7,396.92	150.71	(487.15)	–	7,060.48	(336.44)	-4.5%
Special Revenue Funds ^{2, 3}	285.40	7.99	(26.94)	–	266.45	(18.95)	-6.6%
Enterprise Funds	2,437.22	49.48	(34.54)	–	2,452.16	14.94	0.6%
Internal Service Funds ³	387.10	3.66	(4.40)	–	386.36	(0.74)	-0.2%
Other Funds	65.00	0.24	–	–	65.24	0.24	0.4%
TOTAL	10,571.64	212.08	(553.03)	–	10,230.69	(340.95)	-3.2%

¹ Total number of budgeted positions includes an increase of 189.98 FTE through the conversion of hourly and temporary help expenses to full-time equivalent positions.

² Total number of budgeted positions includes positions from Maintenance Assessment Districts (MADs).

³ The Fiscal Year Proposed Budget includes the fund type restructure of the Energy Conservation Program from Special Revenue Funds to Internal Service Funds.

The Fiscal Year 2011 Proposed Budget represents a net reduction in the City’s budget of 340.95 FTE positions¹ from the Fiscal Year 2010 Annual Budget. The net reduction is a result of eliminating approximately 553 filled and vacant positions and the addition of approximately 212 positions due to the budget neutral conversion of hourly and temporary wage expenses to full-time equivalent positions, existing facilities that were partially staffed last fiscal year, an increase in staffing for Enterprise Funds, and other priorities. The position reductions are positions that are no longer funded in the City’s budget and represent a real reduction in labor costs. The position additions related to the conversion of hourly and temporary wage expenses to full-time equivalent positions do not represent an increase in salary and wages to the City. In previous fiscal years, departments had the ability to hire hourly employees from their hourly or temporary help budgets; however, this has changed with the new budget system. The total wages budget for these two accounts has been combined in Fiscal Year 2011 into one account and has also been converted into an FTE basis.

As shown in **Table 6**, of the nearly 336 position net change to the General Fund, approximately 136 positions are additions related to the conversion of the hourly and temporary wage expenses to full-time equivalent positions; 15 are new positions; 485 positions were removed per the Fiscal Year 2010 Revised Budget; and two positions were reduced per the Fiscal Year 2011 reductions. A total of 19 net positions were reduced from Special Revenue Funds as a result of the addition of six new positions related to the conversion of the hourly and temporary wage expenses to full-time equivalent positions, the addition of two new positions, and the elimination of approximately 27 positions from the budget. Of the 15 net positions that were added to the Enterprise Funds, 44 positions are additions related to the conversion of the hourly and temporary wage expenses to full-

¹ This net reduction of positions includes the elimination of 523.79 FTE positions as part of the Fiscal Year 2010 Revised Budget approved by City Council and the addition of 189.98 FTE positions due to the conversion of hourly and temporary wage expenses to full-time equivalent positions.

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time equivalent positions; five are new positions; and 35 positions were removed from the budget. In the Internal Service Funds four positions were added due to the conversion of the hourly and temporary wage expenses to full-time equivalent positions and four positions were eliminated.

Table 7 further illustrates the annual budgeted FTE positions, salaries and wages, fringe, and total personnel expenditures by fund type. A total of \$644.8 million has been budgeted for salaries and wages, and \$423.7 million budgeted for fringe expenditures resulting in a total budget of \$1.07 billion in personnel expenditures (PE) citywide.

In previous fiscal years, estimated vacancy savings were factored into the fiscal year budgets based upon an anticipated percentage of vacant positions. With the implementation of the Human Capital Management (HCM) module of SAP and the new Public Budgeting Formulation (PBF) system, the City has the ability to provide funding only for filled positions. This new approach has been incorporated in the development of the Fiscal Year 2011 Proposed Budget. The City identified all vacant positions as of December 2009 and adjusted for changes in position status in March 2009 for departments with less than 50 positions. As a result, the Fiscal Year 2011 Proposed Budget includes funding only for those positions filled at the time this review was completed. The result is that the departments will need to appropriately manage their Fiscal Year 2011 personnel expenditures to their available allocated appropriations.

Table 7: Fiscal Years 2011 Proposed Personnel Expenditures Budget

Fund Type	Budgeted FTE Positions	Budgeted Salaries and Wages	Budgeted Benefits	Budgeted Personnel Expense
General Fund	7,060.48	\$ 473,479,414	\$ 314,778,081	\$ 788,257,495
Special Revenue Funds ^{1, 2}	266.45	\$ 16,505,098	\$ 9,891,670	\$ 26,396,768
Enterprise Funds	2,452.16	\$ 130,823,499	\$ 83,320,908	\$ 214,144,407
Internal Service Funds ²	386.36	\$ 19,728,099	\$ 13,092,986	\$ 32,821,085
Other Funds	65.24	\$ 4,217,263	\$ 2,656,331	\$ 6,873,594
TOTAL	10,230.69	\$ 644,753,373	\$ 423,739,976	\$ 1,068,493,349

¹ Total number includes positions and personnel expenditures from Maintenance Assessment Districts (MADs).

² The Fiscal Year Proposed Budget includes the fund type restructure of the Energy Conservation Program from Special Revenue Funds to Internal Service Funds.

Table 8 shows the change in the number of budgeted positions in the General Fund over the last two fiscal years. In Fiscal Year 2011, General Fund positions decreased by 336.44 FTE positions, or approximately 4.5 percent from the Fiscal Year 2010 Annual Budget. This net decrease is primarily due to the reductions identified in the Fiscal Year 2010 Revised Budget, conversion of hourly and temporary wage expenses to full-time equivalent positions, the addition of staff for existing facilities that were partially staffed last fiscal year, and the addition of other priority staff.

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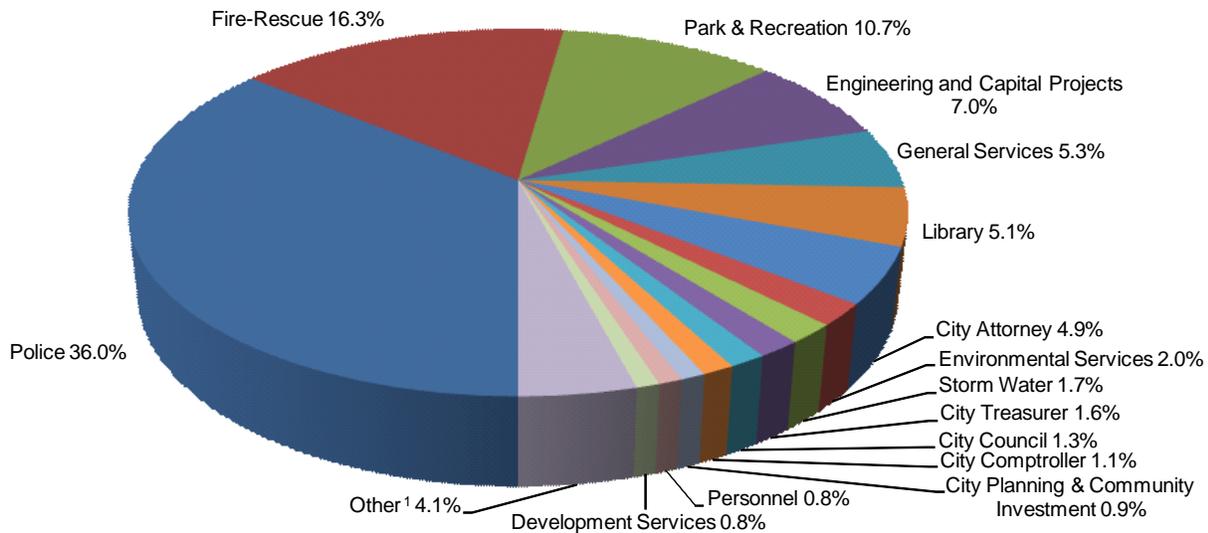
Table 8: General Fund FTE Position Summary Fiscal Years 2010-2011

	FY 2010 Annual Budget	FY 2011 Proposed ¹ Budget
Total General Fund Budgeted FTE Positions	7,396.92	7,060.48
Percent Change from Previous Year	-2.0%	-4.5%

¹ Total number of budgeted positions includes an increase of 135.61 through the conversion of hourly wages to full-time equivalent positions.

Figure 3 summarizes the Fiscal Year 2011 General Fund FTE positions by department. Only those departments with over 50 General Fund budgeted FTE positions are displayed. All other General Fund departments are combined under the “Other” category. For a detailed look at the budgeted FTE positions in the General Fund refer to the Financial Summary and Schedules section of this Volume.

Figure 3: Fiscal Year 2011 Proposed General Fund FTE Positions by Department



¹ The Other category includes: Purchasing & Contracting, City Clerk, Community & Legislative Services, Real Estate Assets, Financial Management, Debt Management, Administration, Human Resources, City Auditor, Reservoir Recreation, Business Office, Administration, Office of Homeland Security, Office of the IBA, Ethics Commission, Office of the Chief Financial Officer, Office of the Mayor and COO, Office of the Assistant COO, and Public Works.

Table 9 represents the allocation of FTE positions per employee labor group within each fund type. The largest employee labor group, Municipal Employees Association (MEA), represents 36.9 percent of General Fund positions and 43.0 percent of all City positions.

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Table 9: Fiscal Year 2011 Proposed FTE Positions by Labor Group and Fund Type

Labor Group	General Fund	Enterprise Funds	Internal Service Funds	Special Revenue Funds	Other Funds	Labor Group Totals
MEA	2,602.09	1,498.17	158.56	101.00	43.24	4,403.06
POA	1,971.35	–	–	–	–	1,971.35
IAFF LOCAL 145	886.62	2.00	–	28.40	–	917.02
ASFCME LOCAL 127	859.60	820.74	204.00	62.99	–	1,947.33
Classified Unrepresented	141.77	75.23	18.60	46.00	5.00	286.60
Unclassified	324.92	56.02	5.20	28.06	17.00	431.21
DCAA	139.32	–	–	–	–	139.32
Teamsters	134.80	–	–	–	–	134.80
FUND TOTALS	7,060.48	2,452.16	386.36	266.45	65.24	10,230.69

Table 10 displays the percentage of positions in the Police and Fire-Rescue Departments compared to the remaining General Fund departments. The Fiscal Year 2011 Proposed Budgets for the Police and Fire-Rescue Departments include 3,687.29 FTE positions or approximately 52.2 percent of total General Fund FTE positions. The budgeted positions in the Police Department decreased from 2,754.75 FTE positions in Fiscal Year 2010 to 2,539.20 FTE positions in the Fiscal Year 2011 Proposed Budget primarily due to reductions in vacant sworn positions, civilian positions, Police Service Officers, Police Investigative Aides, and the additions related to the conversion of hourly and temporary wage expenses to full-time equivalent positions. For the Fire-Rescue Department, the number of FTE positions decreased from 1,187.63 FTE positions to 1,148.09 FTE positions primarily due to reductions in vacant sworn positions and additions related to the conversion of hourly and temporary wage expenses to full-time equivalent positions.

Table 10: General Fund FTE Position Summary Fiscal Years 2010-2011 by Category

	FY 2010 Annual Budget	FY 2011 Proposed Budget ¹
Police and Fire-Rescue Budgets	3,942.38	3687.29
Percent of Total General Fund Budget	53.3%	52.2%
Other General Fund Department Budgets	3,454.54	3,373.19
Percent of Total General Fund Budget	46.7%	47.8%

¹ Total number of budgeted positions includes an increase of 135.61 through the conversion of hourly wages to Full-Time equivalent positions.

The Fiscal Year 2011 Proposed Budget reduces 530.93 FTE positions from the City's budget. This is in addition to the elimination of 883.00 FTE positions in the previous four fiscal year budgets. The Fiscal Year 2011 position cuts that have been included in this budget are part of the Mayor's ongoing effort to streamline the City's workforce. **Table 11** shows the total number of net FTE position reductions from Fiscal Year 2007 through Fiscal Year 2011. Note that the Fiscal Year 2011 amount

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excludes the addition of the 189.98 FTE positions due to the conversion of hourly and temporary wage expenses to full-time equivalent positions. These positions do not represent an increase in salary and wages to the City, but represent an improvement in budgeting and accounting for labor costs.

Table 11: Total City FTE Position Reductions by Fiscal Year

FY 2007 Annual Budget	FY 2008 Annual Budget	FY 2009 Annual Budget	FY 2010 Annual Budget ¹	FY 2011 Proposed Budget ²	Total
(38.00)	(629.71)	(57.82)	(157.18)	(530.93)	(1,413.64)

¹ Includes the elimination of 150.95 FTE positions as part of the Fiscal Year 2009 Revised Budget approved by City Council.

² Includes the elimination of 523.79 FTE positions as part of the Fiscal Year 2010 Revised Budget approved by City Council.

Total Budgeted Fringe Allocations

Fixed fringe costs are fixed and variable expenses that meet specific obligations established through agreements with the labor unions, City ordinances, or the City's Reserve Policy, regardless of current FTE count or salary amounts. Fixed fringe costs include the San Diego City Employees' Retirement System's (SDCERS) Annual Required Contribution (ARC), and contributions for Workers' Compensation, Long-Term Disability, Retiree Health Care, Other Post-Employment Benefits (OPEB), and Risk Management Administration (RMA). These expenditures account for \$324.1 million, or 76.5 percent, of budgeted fringe in Fiscal Year 2011. Remaining fringe allocations vary with salaries or positions.

Table 12 displays the citywide fringe allocation which totals \$423.7 million for Fiscal Year 2011 of which \$314.8 million, or 74.3 percent, is budgeted in the General Fund.

Table 12: Fiscal Year 2011 Proposed Budgeted Fringe by Fund

Fringe Type	General Fund	Enterprise Funds	Internal Service Funds	Special Revenue Funds	Other Funds	Fringe Totals
SDCERS ARC	\$ 180,147,479	\$ 4,885,268	\$39,321,766	\$ 6,099,135	\$ 1,279,054	\$ 231,732,702
Flexible Benefits	\$ 37,303,050	\$ 1,572,217	\$12,888,593	\$ 2,102,755	\$ 409,713	\$ 54,276,328
Other Post-Employment Benefits ¹	\$ 40,006,988	\$ 1,461,040	\$13,685,372	\$ 2,277,596	\$ 362,178	\$ 57,793,174
Workers' Compensation	\$ 16,810,171	\$ 186,252	\$ 2,813,591	\$ 485,438	\$ 95,811	\$ 20,391,263
Retirement Offset Contribution	\$ 4,773,585	\$ 214,916	\$ 2,608,805	\$ 256,901	\$ 78,663	\$ 7,932,870
Supplemental Pension Savings Plan	\$ 9,005,030	\$ 672,811	\$ 5,491,704	\$ 869,537	\$ 161,561	\$ 16,200,643
Employee Offset Savings	\$ 8,874,929	\$ 244,576	\$ 1,026,830	\$ 129,391	\$ 87,063	\$ 10,362,789
Medicare	\$ 5,236,724	\$ 189,925	\$ 1,555,201	\$ 240,026	\$ 56,287	\$ 7,278,163
Risk Management Administration	\$ 6,167,581	\$ 225,712	\$ 2,110,711	\$ 351,284	\$ 55,860	\$ 8,911,148
Long Term Disability	\$ 3,792,152	\$ 137,763	\$ 1,106,853	\$ 168,167	\$ 38,514	\$ 5,243,449

Table 12: Fiscal Year 2011 Proposed Budgeted Fringe by Fund (Cont'd)

Fringe Type	General Fund	Enterprise Funds	Internal Service Funds	Special Revenue Funds	Other Funds	Fringe Totals
Retirement DROP	\$ 1,412,258	\$ 51,475	\$ 348,655	\$ 52,504	\$ 19,225	\$ 1,884,117
Unemployment Insurance	\$ 880,728	\$ 31,948	\$ 256,378	\$ 39,218	\$ 8,987	\$ 1,217,259
Unused Sick Leave	\$ 331,320	\$ 12,028	\$ 96,315	\$ 14,910	\$ 3,415	\$ 457,988
Retiree Medical Trust	\$ 7,218	\$ 1,149	\$ 2,037	\$ 1,226	\$ -	\$ 11,630
Retirement 401 Plan	\$ 28,868	\$ 4,590	\$ 8,097	\$ 4,898	\$ -	\$ 46,453
FUND TOTALS	\$ 314,778,081	\$ 9,891,670	\$83,320,908	\$13,092,986	\$ 2,656,331	\$ 423,739,976

¹ Reflects the annual pay-as-you-go portion and also reflects the contribution to pre-fund future liabilities.

City Retirement Contributions

The City's payment for retirement benefits in Fiscal Year 2011 is budgeted at \$241.2 million and is described below:

- The SDCERS ARC, which was determined by SDCERS' actuarial valuation as of June 30, 2009, is \$231.7 million and assumes no negative amortization with the use of a 20-year amortization schedule of the Unfunded Actuarial Accrued Liability (UAAL). Approximately \$180.1 million or 77.7 percent of the ARC is budgeted in the General Fund.
- The Retirement Offset Contribution or "pick-up" represents the amount of City employees' retirement contributions that the City pays as an offset for employees. The Fiscal Year 2011 Proposed Budget amount is \$7.9 million; a \$0.8 million reduction over the Fiscal Year 2010 Annual Budget.
- In addition, \$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.

The Retiree Health or Other Post Employment Benefits (OPEB) UAAL as of June 30, 2009 is approximately \$1.3 billion and the ARC for Fiscal Year 2011 for Retiree Health was determined by the actuarial valuation as of June 30, 2009 to be \$120.3 million. This valuation assumes a 6.69 percent discount rate based on the City's current level of pre-funding. The City entered into an agreement on January 18, 2008 with the CalPERS Employer Retiree Benefit Trust (CERBT) to pre-fund expenses related to post-employment



healthcare benefits. The City budgeted \$57.8 million in Fiscal Year 2011, which is comprised of \$32.8 million for the annual retiree health benefits payments (pay-as-you-go) and \$25.0 million for

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pre-funding retiree health care benefits. The \$25.0 million is expected to be transferred to CERBT during Fiscal Year 2011.

Employee Offset Savings (EOS)

The labor negotiations in Fiscal Year 2005 resulted in the reduction of the City's "pick-up" (Retirement Offset Contribution). These agreements specified that the savings the City realizes as a result of this reduction must be used to address the City's pension UAAL. Each City department is charged based upon its respective payroll and these funds are transferred into the EOS account. In Fiscal Year 2006, the City issued approximately \$100 million in Tobacco Securitization Bonds and transferred these funds to SDCERS as a contribution to the pension system above the ARC. In order to backfill the Tobacco Settlement Revenues securitized in Fiscal Year 2006 and to protect the programs previously supported with the Tobacco Settlement Revenues, a portion of the EOS funds is transferred each year to the General Fund. The Fiscal Year 2011 Proposed Budget for Employee Offset Savings is \$10.4 million.

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 DROP participants' salary. The Fiscal Year 2011 Proposed Budget for Retirement DROP is \$1.9 million.

Workers' Compensation

State Workers' Compensation laws ensure that employees who are injured or disabled on the job are provided with fixed monetary awards. These laws are intended to reduce litigation and to provide benefits for workers (and their dependents) who suffer work-related accidents or illnesses. State Workers' Compensation statutes establish this framework of laws for the City of San Diego. The Workers' Compensation contribution in the Fiscal Year 2011 Proposed Budget is \$20.4 million.

Long-Term Disability

The Long-Term Disability (LTD) contribution in the Fiscal Year 2011 Proposed Budget is \$5.2 million. This contribution includes funding of \$2.3 million toward the Long-Term Disability Fund Reserves in accordance with the City's Reserve Policy.

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 2011 Proposed Budget for Flexible Benefits is \$54.3 million.

Supplemental Pension Savings Plan (SPSP)

The City opted out of Social Security in January 1982 and replaced it with the Supplemental Pension Savings Plan (SPSP). SPSP accounts provide a way for eligible employees to add to their savings for retirement income, which is in addition to SDCERS' benefits. Employees hired before July 1, 2009 must pay a mandatory 3 percent and can voluntarily contribute up to an additional 3.05 percent for employees hired after July 1, 1986, or 4.5 percent for employees hired on or before July 1, 1986. This amount is deducted from employees' paychecks and placed into an SPSP account for the employee. The City also matches these contributions up to 6.05 percent and this amount is deposited into the employee's SPSP account. The Fiscal Year 2011 Proposed Budget for SPSP is \$16.2 million. Due to labor concessions in the previous fiscal year, some employee groups have the option to waive the City's match to employee mandatory contributions or take a 3 percent salary reduction. The Fiscal Year 2011 budget reflects the selections made by employees.



A new retirement plan for employees hired on or after July 1, 2009 is now in effect and includes a defined contribution savings plan with a mandatory employee contribution of 1 percent of payroll and a retiree medical trust with a mandatory employee contribution of 0.25 percent of payroll. These amounts are deducted from employees' paychecks and placed into the employees' accounts. The City matches these contributions.

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, Long-Term Disability, and Employee Assistance programs. The Fiscal Year 2011 Proposed Budget for Risk Management Administration is \$8.9 million.

Medicare

Medicare is a federal tax established by the Federal Insurance Contributions Act (FICA) that all employees and employers are required to pay. The application of this rate applies to all City employees and is based on earned income, including any earned income related to overtime and other employee special pays. The Fiscal Year 2011 Proposed Budget for Medicare is \$7.3 million.

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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 2011 Proposed Budget for Unemployment Insurance is \$1.2 million and continues to reflect the current state of the unemployment rate in the State.



Unused Sick Leave

Employees hired prior to July 1, 1975 who have accrued sick leave on the City Comptroller's payroll records upon termination will be paid out an amount not to exceed 50 percent of their balance at their current salary rate. An employee may also use this sick leave in the same manner as annual leave while employed. The Fiscal Year 2011 Proposed Budget for Unused Sick Leave is \$0.5 million.

Funding of Annual Leave

In the past, the City had not completely funded the additional expense of Annual Leave paid to employees who end their employment with the City with leave balances. While a portion of annual leave expense has been absorbed in departmental budgets, there will be a large number of employees with high leave balances expected to retire over the next several years. The Fiscal Year 2011 Proposed Budget includes \$1.9 million and is based on anticipated retirements from the Deferred Retirement Option Plan (DROP) within the fiscal year and the projected value of the accrued annual leave balance.

Funding for Operations of Facilities

The Fiscal Year 2011 Proposed Budget includes \$0.5 million in operating funds for new facilities that were open for only part of Fiscal Year 2010. Establishing an annual operating budget to enhance a partial year budget for staff and other operational costs is referred to as an "annualization." This funding will provide annual support to facilities that opened during Fiscal Year 2010 and received partial funding.

Park & Recreation – Facility Annualizations

The Park & Recreation Department's Fiscal Year 2011 Proposed Budget includes funding for the entire year for the following facilities that opened in Fiscal Year 2010. The Fiscal Year 2011 Proposed Budget includes funding for an additional 3.76 FTE positions and operational funding totaling \$462,117 for these facilities:

- Alice Birney Elementary School Joint Use
 - Additional 0.08 FTE position to complete the annual staffing requirement. The full year's operational needs are 0.13 FTE position (0.05 FTE position was included in the Fiscal Year 2010 Annual Budget)

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- Citywide Park Maintenance Support
 - Additional 1.00 FTE position to complete the annual staffing requirement. The full year's operational need is 4.05 FTE positions (3.05 FTE positions were included in the Fiscal Year 2010 Annual Budget)
- Naval Training Center/Liberty Station Phase II
 - Additional 0.37 FTE Grounds Maintenance Worker II positions to complete annual staffing requirements. The full year's operational need is 2.52 FTE positions for the maintenance of the park (2.15 FTE positions were included in the Fiscal Year 2010 Annual Budget)
- Ocean Air Recreation Center
 - Additional 1.21 FTE positions to complete the annual staffing requirement. The full year's operational need is 4.85 FTE positions (3.64 FTE positions were included in the Fiscal Year 2010 Annual Budget)
- Open Space Additional Acreage - 200 Acres
 - Additional 1.00 FTE position to fund one full year of operations
- Roosevelt Middle School Joint Use
 - Additional 0.10 FTE position to complete the annual staffing requirement. The full-year's operational need is 0.17 FTE position (0.07 FTE position was included in the Fiscal Year 2010 Annual Budget)

Citywide Reorganization/Restructuring

The Fiscal Year 2011 Proposed Budget restructuring of several departments is a result of executive management and department-initiated reorganizations. Reorganization includes restructuring of departments and major divisions within a department and is intended to increase the overall efficiencies and effectiveness of City operations. The discussion below provides an overview of significant changes to the City's organizational structure that are included in the Fiscal Year 2011 Proposed Budget.

Public Utilities Department Restructure

Specific administrative and financial functions previously included in the Metropolitan Wastewater (MWWD) and Water branches of the Public Utilities Department have been consolidated into a new administration branch. The Public Utilities Department is now comprised of four branches that are funded by both the Water Enterprise Fund and the Sewer Enterprise Fund: Public Utilities Administration, MWWD-Muni, MWWD-Metro, and Water. Though the different branches cover all the tasks required by the Public Utilities Department, separate accounting is maintained for each fund. The consolidation of certain administrative and financial functions common to the two enterprise funds created opportunities for greater efficiency, reduced personnel costs, and enhanced services to both internal personnel and external customers.

Citizens' Review Board on Police Practices Reorganization

As a result of the Fiscal Year 2010 Budget Amendment, the Citizens' Review Board on Police Practices program was transferred from the Administration Department to the Human Resources Department. This City Charter-mandated program reviews and evaluates citizen complaints against police officers and the discipline arising from such complaints. The Administration Department will continue to coordinate the administrative hearings for police regulated businesses and pay for the services provided by the Hearing Officers.

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Fiscal Actions in the Fiscal Year 2011 Proposed Budget

The City of San Diego remains committed to restoring fiscal stability, addressing its financial obligations, and meeting its responsibility to provide essential core services to San Diego residents.

The Fiscal Year 2011 Proposed Budget contains funding for the full payment of the pension ARC, funding for retiree health pay-go and a contribution to the retiree health trust, and funding for storm water obligations. Due to the decline in revenues, and the significant increase to the City's pension payment, the City will suspend contributions to the General Fund, Public Liability and Workers' Compensation reserves in Fiscal Year 2011 while maintaining current reserve levels. Over the past three years, \$30.0 million of land sale funding has been budgeted to support projects to meet Americans with Disabilities Act (ADA) requirements. Until the real estate market improves, the City is not budgeting additional funding for ADA projects in Fiscal Year 2011.

In addition to the \$103.0 million budgeted for deferred capital needs, the City expects to receive approximately \$19.6 million in Proposition 1B funds in Fiscal Year 2011 for street projects.

Funding the Pension Plan

The Fiscal Year 2011 Proposed Budget includes funding for the City's Pension Plan which is a critical component of the City's long-term fiscal health and stability. In Fiscal Year 2009, the Mayor and City Council approved a new pension reform plan (effective July 1, 2009) which is expected to achieve savings in the City's pension payments in future years. In January 2009, SDCERS released its June 30, 2009 actuarial valuation report that determined the City's ARC payment of \$231.7 million for Fiscal Year 2011. The full ARC payment is expected to be transferred to SDCERS on July 1, 2010.

Maintaining Reserves

Healthy reserves help insulate the City services against periodic swings in the economy, as well as costs of emergencies, such as natural disasters. In addition, since the City's reserves are one of several factors considered by rating agencies, a strong reserve balance may help lower the cost to the City to borrow money. The City currently maintains several reserves for its operations, including the Emergency Reserve for the General Fund (established to fund unanticipated liabilities for natural disasters, catastrophic occurrences, and judgments), development services reserve funds, risk management reserve funds, and water enterprise reserves among others.

The City's Reserve Policy calls for: a) the maintenance of adequate reserve levels for all of its reserves including the Emergency Reserve and the Appropriated Reserve in the General Fund; b) enhanced operating reserves for Enterprise Funds such as Water and Wastewater; c) a capital reserve; and d) other types of reserves. The City's policy defines a goal of having a minimum of 8 percent of General Fund revenues held in reserves by Fiscal Year 2012. As part of the deficit mitigation plan for Fiscal Year 2011, contributions to the General Fund, Public Liability, and Workers' Compensation reserves have been suspended in Fiscal Year 2011. It is expected that the General Fund will maintain the current 7 percent reserves in Fiscal Year 2011 and the reserves for Public Liability and Workers' Compensation will be maintained at current levels as well. The City's Reserve Policy will be revised to incorporate these timing changes.

Retiree Health Care Costs

The City continues to fund retiree health care benefits, otherwise known as OPEB, as this annual cost is expected to increase substantially in future years. As of the June 30, 2009 actuarial valuation, the citywide Fiscal Year 2011 OPEB ARC is \$120.3 million for the City's post-retirement medical benefit program. The valuation assumed a 6.69 percent discount rate and determined a total actuarial accrued liability of \$1.3 billion. The Fiscal Year 2011 Proposed Budget includes \$57.8 million, which is comprised of \$32.8 million for the annual retiree health benefits payments (pay-as-you-go) and \$25.0 million for pre-funding retiree health care benefits in a trust funds administered by CalPERS, the California Employers' Retiree Benefits Trust. Through a Labor Management Committee, the City is currently studying options around its retiree health care program. Negotiations to possibly restructure this program to make it more affordable and sustainable will begin in Fiscal Year 2011.



Municipal Storm Water Permit Compliance

Compliance with the Municipal Storm Water Permit required by the California Regional Water Quality Control Board significantly impacts the City's budget. The Fiscal Year 2010 Annual Budget included \$37.7 million to fund programs to comply with the permit including storm water pollution prevention, street sweeping, and storm drain maintenance. In Fiscal Year 2011, the City will continue to comply with the permit requirements by funding programs and services with a Fiscal Year 2011 Proposed Budget of \$35.4 million.

Corrective Actions Carried Forward from the General Fund Budget Adopted December 2009

On October 1, 2009, the Mayor released the Fiscal Year 2011-15 Five-Year Financial Outlook, which identified a projected General Fund shortfall of \$179 million in Fiscal Year 2011. In order to mitigate this projected deficit, on November 24, 2009, the Mayor presented the Fiscal Year 2010 Budget Amendment Report and Fiscal Year 2011 Proposed General Fund Budget followed by an addendum released on December 4, 2009. The Mayor recommended, among other actions, a decrease in expenditures that included the elimination of 485.16 General Fund FTE positions in Fiscal Year 2011. On December 2009, the City Council took early steps to address the projected Fiscal Year 2011 deficit and adopted the Fiscal Year 2010 Revised Budget and the Fiscal Year 2011 Proposed General Fund Budget. The anticipated Fiscal Year 2010 savings of \$24.6 million have been set aside and have been incorporated into the Fiscal Year 2011 Proposed Budget to address the projected Fiscal Year 2011 deficit.

Suspension of Contribution to Reserves

The Workers' Compensation Reserve is maintained as a contingency in the event the annual expense for claims exceeds the annual "pay-go" budgeted amount. The Fiscal Year 2011 Proposed Budget does not include additional funding for the Workers' Compensation reserves in Fiscal Year 2011. The 22 percent reserve level projected for Fiscal Year 2010 will be maintained in Fiscal Year

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2011 instead of reaching 30 percent as projected in the City's Fiscal Year 2011-15 Five-Year Financial Outlook. While the City is committed to funding reserves in the Workers' Compensation and Public Liability funds, the goal of funding 50 percent of outstanding liabilities in both funds by 2014 is being revised due to the one-year suspension of reserve contributions based on the continued economic downturn.

The Public Liability Reserve level is expected to be \$17.1 million at the end of Fiscal Year 2010, or 15 percent of potential claims liability. These reserves are maintained to fund self-insured retention expenses related to the fund that may exceed the annual budgeted claims expense. The Fiscal Year 2011 Proposed General Fund Budget does not include additional funding for the Public Liability Reserves in Fiscal Year 2011 and the 15 percent reserve level is expected to be maintained in Fiscal Year 2011. The goal of reaching a 50 percent reserves for this fund by Fiscal Year 2014 is also being re-evaluated, and the City's Reserve Policy, once revised, will reflect new targets to achieve this goal.

Fund Balance Transfer & Mission Bay Revenue

An additional \$4.3 million in Mission Bay revenues has been set aside in Fiscal Year 2010 to be transferred to the General Fund in Fiscal Year 2011, while an additional \$9.5 million will be transferred to the General Fund from obsolete funds where the purpose for which the fund was created is no longer needed and the original source of funds was General Fund revenue.

Parking Utilization Study

A parking utilization study has been proposed to City Council that will update technologies associated with the collection of parking meter revenue and determine how best to set parking meter rates at certain hours to maximize revenue by increasing the utilization of metered spaces. This change in parking meter pricing is expected to increase revenues by \$2.6 million annually and provide this additional revenue on an on-going basis. The Fiscal Year 2011 Proposed Budget includes this additional revenue; however, City Council has not yet approved this revision to parking meter pricing.

Information Technology Savings

The City has begun selectively outsourcing its information technology services by opening competitive bids, with the goal of maintaining or increasing service performance levels and at a lower cost. This includes help desk and desktop support, telecommunications, and data center tasks and is expected to produce an on-going savings of \$3.0 million per fiscal year.

The Help Desk and Desktop Support Service is the first of several RFP's the City will be issuing for Information Technology services. The others being Data Center, Voice/Data Network & Telecommunications, and Applications Support. The purpose of these competitive procurements is to utilize a fair and competitive RFP process to identify the best provider of help desk services for the City and identify cost savings for Fiscal Year 2011. The competitive bidding process for the other services will further reduce costs beyond Fiscal Year 2011.

Transient Occupancy Tax Support Reduction

The City supports certain programs with transient occupancy tax revenue, including local arts and culture initiatives and support of the maintenance efforts at the convention center. Revenue transfers to these two programs is reduced by \$1.2 million in the Fiscal Year 2011 Proposed Budget.

Debt Service for Deferred Capital Projects

The Fiscal Year 2011 Proposed General Fund Budget (adopted by Council in December 2009) included a solution that allowed for the Capital Outlay Fund to pay the principal portion of General

Fund debt service. However, due to the slowdown in real estate sales and the negative outlook for revenues coming into the Capital Outlay Fund in Fiscal Year 2011, this solution was not used. The debt service payment for deferred capital projects is budgeted in the General Fund for Fiscal Year 2011.

Additional Corrective Actions in the Revised Fiscal Year 2011 General Fund Proposed Budget

As a result of continued decline in General Fund revenues, slow economic recovery and increased annual payment for the City's annual pension contribution, a projected deficit of approximately \$28 million was identified after the adoption of the Fiscal Year 2011 General Fund Proposed Budget in December 2009. This new deficit has been addressed in the Revised Fiscal Year 2011 Proposed Budget through additional measures described in this section.

Subsequent to the City Council adopting the Fiscal Year 2011 Proposed General Fund Budget, SDCERS released its June 30, 2009 actuarial valuation which determined the City's ARC to be \$18.9 million higher citywide than projected in the Fiscal Year 2011 Proposed General Fund Budget adopted by City Council on December 2009. After budgeting the City's total personnel and benefit costs, the ARC contribution for the General Fund was determined to be \$9.8 million higher for the General Fund rather than initial estimates of \$15.0 million. This adjustment is due in part to the reductions in positions taken in the General Fund in Fiscal Year 2010 and a more sophisticated budgeting system now in place that distributes fringe costs with greater accuracy based on actual filled positions.

In addition, in Fiscal Year 2010, General Fund major revenues and many departmental revenues were lower than expected, creating a lower baseline for revenue projections in Fiscal Year 2011. As a result of this drop in revenue in Fiscal Year 2010, an additional revenue shortfall of approximately \$14.6 million is projected for Fiscal Year 2011 and remediated in the Revised Fiscal Year 2011 General Fund Proposed Budget. Additionally, the solution in the General Fund budget adopted in December 2009 to fund the principal portion of the debt service payment from the Capital Outlay Fund (\$3.6 million) is no longer viable until the real estate market improves, and therefore the full debt service expense is budgeted in the General Fund. These changes (expenditure increases of \$13.4 million and revenue reductions of approximately \$15.0 million from December 2009 estimates), resulted in a new budget gap of approximately \$28 million that is resolved in this Revised Fiscal Year 2011 Proposed Budget.

The following are new corrective actions or adjustments to the budget actions taken in December 2009. These proposed budget adjustments are included in the Revised Fiscal Year 2011 Proposed Budget to address the additional projected deficit amount of \$28 million.

McGuigan Settlement Financing

The Fiscal Year 2011 General Fund Proposed Budget approved by City Council in December of 2009 assumed that the first debt service payment of approximately \$6.7 million would occur in Fiscal Year 2011; however, based on the new debt structure, the first payment for the General Fund of approximately \$8.0 million will be due in Fiscal Year 2012.

On March 9, 2010, the City Council approved a financing plan seeking to modify a court-approved class action settlement in the case of William J. McGuigan v. City of San Diego, et. al. (the "McGuigan Settlement"), to allow the City to pay the remaining settlement amount, approximately \$39.5 million citywide if paid by the June 8, 2011 deadline, over four years due to the unreasonable hardship that would result if the City were required to make this payment within the prescribed time period. If the modification is approved by the court in April, the City-wide obligation is anticipated to

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be an upfront payment of approximately \$5.5 million on June 30, 2010 and four annual payments projected to be approximately \$9.0 million in Fiscal Years 2012 through 2015. The General Fund proportionate share of this payment is equal to approximately \$1.0 million upfront on June 30, 2010 and approximately \$8.0 million annually in Fiscal Years 2012 through 2015. If the settlement is not modified, the City's payment would be \$39.5 million and the General Fund's proportionate share of the payment would be approximately \$30.8 million if paid on June 8, 2011. This lawsuit involved the underfunding of the pension system by the City and all payments made under the settlement are credited against the Unfunded Actuarial Accrued Liability.



Reduction to Contracts and Equipment Outlay Budgets

As part of the Fiscal Year 2011 Proposed Budget, General Fund departments were required to review all expenditures related to contractual services and equipment outlay in order to identify potential budgetary savings and to ensure that the requests were aligned with the department's budget priorities. As a result, the Fiscal Year 2011 budget includes savings of \$7.5 million in contracts and equipment.

Adjustment to Fleet Rates

The City-wide motive equipment usage allocations have been reduced due to rate reductions associated with the use of fund balance in the Fleet Services Operations Fund. In Fiscal Year 2010, the fund is projecting to end the year with an estimated \$5.8 million fund balance. As a result, rate allocations have been reduced resulting in savings to the General Fund of \$4.4 million in Fiscal Year 2011. The allocations for motive equipment replacement have been reduced by \$9.4 million City-wide (\$6.6 million for the General Fund) to align purchases of motive equipment with available funding. The City is evaluating funding requirements and methods of supporting the purchase of City vehicles to better align resources to replacement needs.

Retiree Health Pay-Go

The Fiscal Year 2010 projections for retiree healthcare pay-go costs are estimated to be \$29.2 million. Based on this projection the budget for Fiscal Year 2011 is \$32.8 million and assumes a 12.6 percent average growth rate from the June 30, 2009 OPEB Actuarial Valuation resulting in savings of \$4.4 million citywide (\$3.0 million General Fund) from the amount included in the December 2009 Fiscal Year 2011 Proposed Budget.

General Fund Revenues

General Fund revenues are dependent on the financial health of the local economy in addition to the State and nationwide economy. As the local, State, and nationwide economic outlook continues to decline for the upcoming fiscal year, General Fund revenue growth rates are reviewed and revised. Based on updated period revenue reports, economic trends that affect specific revenues within the General Fund, forward looking indicators, and guidance provided by the State and other sources, the budget for Fiscal Year 2011 has been updated to reflect this continually updated economic information.

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The following are some of the economic assumptions and indicators that have been used in the preparation of the Fiscal Year 2011 Proposed Budget.

- San Diego County tourism is forecasted to improve in Fiscal Year 2011, with stabilization and slight improvement in the average daily room rates, revenue per available room, and occupancy rate (CONVIS).
- Leading economic indicators for San Diego County have increased 7.1 percent over the last twelve months, as of February 2010 (University of San Diego, Index of Leading Economic Indicators).
- The unemployment rate in San Diego has increased from 9.5 percent to 10.6 percent in the last twelve months. The State of California unemployment rate has increased from 11 percent to 12.8 percent for the same time period (California Employment Development Department).
- Foreclosures in the County of San Diego totaled 15,077 for the last twelve months, from March 2009 to February 2010, which represents a decrease of 4,300 foreclosed homes or a 22.3 percent decrease for the previous 12 month period, covering March 2008 to February 2009 (County of San Diego Clerk's Office).
- Total home sales in the San Diego County for the last twelve months (as of February 2010) totaled 39,067 homes as compared to 35,424 a year ago; while home prices in the County have also increased 13.5 percent for the same period (DataQuick Information Systems).
- National Consumer Confidence has increased 22 percent from January 2009 to February 2010, but declined 17.7 percent from January to February 2010. While this increase in the consumer confidence index in 2009 reflects an improved outlook for consumer spending and investment, the recent decline in confidence is an illustration of the mixed outlook in employment, wage levels, and housing throughout the nation and its impact on consumer confidence (Consumer Conference Board).

The Fiscal Year 2011 General Fund Revenue Budget totals \$1.09 billion including property tax, sales tax, Transient Occupancy Tax, and franchise fees, comprising 65.7 percent of the General Fund.

Figure 4 displays the Fiscal Year 2011 Proposed General Fund Revenues by Major Revenue Category.

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Figure 4: Fiscal Year 2011 Proposed General Fund Revenues by Major Revenue Category

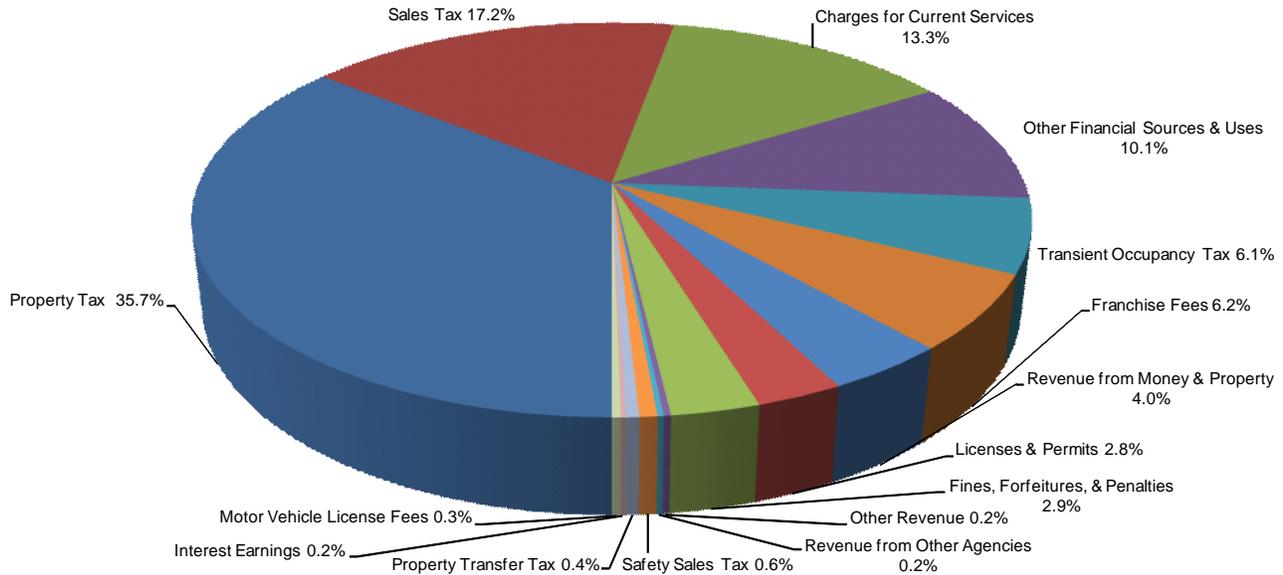


Table 13 demonstrates the growth rates for Fiscal Years 2009 to 2011 for the major General Fund revenues. Forecasting of revenue growth rates is important in determining funding for most General Fund expenditures. It should be noted that for the purpose of revenue forecasting, budgeted growth rates listed below are applied to Fiscal Year 2010 year-end projections and do not represent the percentage increase from one year's budget to the next.

Table 13: Major Revenue Growth Rate

Major Revenue Sources	FY 2010 Annual Budget	FY 2011 Proposed Budget
Property Tax	-3.3%	-0.1%
Sales Tax ¹	-1.4%	1.3%
Transient Occupancy Tax	-3.4%	0%
Franchise Fees ²		
SDG&E	2.8%	-9.9%
Cable Franchise Fees	2.4%	2.5%

¹ Does not include Proposition 172 sales tax. Growth rate in taxables sales and Bradley-Burns receipts is 0 percent, growth in revenue of 1.3 percent is due to "triple-flip" calculations.

² Franchise fees do not include underground utility surcharge.

User Fees

User fees are charges for services provided by the City to residents and businesses. On March 10, 2009, the City Council adopted the User Fee Policy, which includes guidelines for establishing a comprehensive user fee schedule. In addition, it requires that the full cost of services be identified

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and all fees be categorized according to the level of cost recovery. The objective of the Policy is to bring existing fee levels in-line with service costs to ensure that all reasonable costs incurred in the provision of services are being recovered.

The User Fee Policy states that a comprehensive user fee study shall be conducted every three years; between such time, fees will be adjusted annually during the budget development process based on the Consumer Price Index (CPI) rate to maintain the cost recovery level. In accordance with the adopted Policy, all General Fund fees were evaluated in a comprehensive study in Fiscal Year 2010. As a result of the study, many fees were revised according to target cost recovery rates, and new fees were identified and implemented.

In Fiscal Year 2011, the total budgeted increase in user fee revenue as a result of fee adjustments is \$134,100.

- City Planning & Community Investment: \$50,000
- Engineering & Capital Projects: \$55,100
- Neighborhood Code Compliance: \$29,000

The City Planning & Community Investment and Engineering & Capital Projects departments adjusted fees to maintain target cost recovery levels. The fee adjusted in the Neighborhood Code Compliance Division of the Development Services Department is a State-mandated fee; the State increased this fee effective January 1, 2010.

State of California Budget Impacts

The State of California adopted fiscal measures prior to the beginning of Fiscal Year 2010 to eliminate an estimated \$40 billion budget deficit. These measures included the suspension of Proposition 1A, which allowed the State to borrow local revenues once every three years to help stem the shortfall in revenues, increasing the state-wide sales tax rate by one percent, and increasing personal income taxes for certain citizens. However, after addressing this \$40.0 billion deficit, the continuing drop in the State's General Fund revenues from projections due to a decline property tax, sales tax, and other revenue sources, the State is currently facing an estimated \$20.0 billion deficit. The State is facing a current Fiscal Year 2010 deficit of \$1.2 billion in addition to a projected \$18.7 billion deficit in Fiscal Year 2011.

The measures to eliminate the State's initial Fiscal Year 2010 \$40 billion budget deficit had the potential to place additional pressures on the City's budget due to the suspension of Proposition 1A, which redirected local property tax revenue from the City to the State's General Fund. The City received a repayment obligation from the State in return for \$35.8 million in property taxes that were redirected to the State. While the State cannot borrow additional property tax revenue in Fiscal Year 2011, it is considering additional measures to increase General Fund revenue to address the current \$20 billion budget deficit that could place additional pressures on the City's budget for Fiscal Year 2011. This includes the possibility of redirecting local gas tax revenues, dedicated to road improvement projects, to the State's General Fund.

For Fiscal Year 2010, the City's gas tax revenues were classified under Proposition 42 (also known as AB 2928) revenue, which was generated from a 6 percent tax on each gallon of gasoline, and HUTA (Highway User's Tax Account) gasoline tax, which was generated from a flat 18 cent tax on each gallon of gasoline. Both Proposition 42 and HUTA revenue distributed to cities and counties from the State are used for road improvement projects and are deposited in a set-aside special revenue fund by the City. In March 2010, the California Governor signed AB 86, AB 89, and SB 70, which restructured the State's portion of gasoline tax. These bills eliminated the 6 percent tax on

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each gallon of gasoline in favor of a flat tax of 17.3 cents per gallon (to be adjusted annually for inflation). The amount of revenue generated by the new 17.3 cent tax will be distributed according to provisions set in these bills, i.e., replacement of the revenue that was to be received by each jurisdiction under Proposition 42. Although these funds distributed to each jurisdiction are no longer considered Proposition 42 revenues, the State mandates still require the use of these funds on road improvement projects.

This restructuring of gasoline taxes did not affect the 18 cent per gallon tax that generates HUTA revenues. For Fiscal Year 2011, the City budgeted \$13.3 million to be received in Proposition 42 'replacement revenue' and \$21.6 million in HUTA gas tax.

The restructuring of gasoline taxes allows both HUTA and the Proposition 42 'replacement revenues' to be redirected back to the State's General Fund if the State's legislature votes in majority to do so. As in Fiscal Year 2010, with the suspension of Proposition 1A, the City could receive a repayment obligation from the State for lost revenue amounts if the State were to redirect these revenues back to their General Fund. However, unlike the suspension of Proposition 1A, the State would not have to pay interest based on these borrowed funds, and could borrow funds from cities every fiscal year. This \$34.9 million in combined Proposition 42 'replacement revenues' and HUTA revenue may potentially be redirected to the State in Fiscal Year 2011.

California's Proposition 1B (known as the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act) was established in 2006 to provide over \$1 billion in funds to cities and counties throughout California for local transportation improvement projects. In Fiscal Year 2008, the City received \$21.2 million from Proposition 1B funds. The City did not receive any Proposition 1B revenue in Fiscal Years 2009 or 2010, but is expected to receive another disbursement of \$19.6 million in Fiscal Year 2011 of which \$3.3 million is budgeted in General Fund and \$16.3 million will be spent for capital improvement projects. In Fiscal Year 2011, the City is expected to receive State money restricted for specific purposes. The expected annual payment for the Citizen's Options for Public Safety (COPS) included in the budget is \$1.6 million to be used for funding of law enforcement.

Fiscal measures taken by the State are being monitored by the City for their potential effects on revenues and expected cash flows, including the State's potential appropriation of local gas tax revenues.

Fiscal Policies

The City has made progress in developing sound fiscal policies to guide decision making. The City has established a new Budget Policy to guide the creation of the City's budget, and continues to modify existing policies and procedures to foster responsible fiscal management. A detailed explanation of these fiscal policies is included in the Fiscal Policies section of this Volume.

Economic Recovery

Our community looks to the City for leadership and planning to help stem the tide of economic woes and prepare us to be well-positioned for future economic expansion. The City has made it a top priority to focus on economic recovery as a municipal corporation and for its residents.

The City is focusing its efforts on regaining fiscal stability through a number of programs and initiatives:

- Business Support and Expansion Programs
- Economic Roundtable

- Small Business Development Programs
- Federal and State Stimulus Programs

The City's economic policy will also continue to focus on the growth of its economic base. This base primarily consists of four sectors or groups of related industries: manufacturing, international trade and logistics, tourism, and the military.

Reengineering and Competitive Government

The Reengineering Program oversees the City's Business Process Reengineering (BPR) studies, conducts efficiency studies, and provides support for management reforms and effectiveness improvements. In this time of decreasing revenues, the Reengineering Program helps identify efficiency gains that can permit "smart" budget reduction proposals and works to improve efficiency to support organizational success, even in an environment of fewer resources.

BPR is the redesign of work processes (activities, services, or functions) for substantial improvement. Efficiency studies also aim to improve efficiency and effectiveness but are more flexible in their approach to problem solving.

Competitive government is defined as a government with processes in place to validate that service quality and costs are as good as, or superior to, any legitimate provider available. This may be achieved via direct outsourcing, managed competition, benchmarking, and bid-to-goal processes.

City Management Program

The City Management Program (CMP) integrates strategic planning and performance monitoring efforts with the budget decision-making process. Its goal is to create a more strategically-oriented organization that optimizes its operations to serve the City's residents in the most effective and efficient way possible. Founded on Balanced Scorecard principles, the CMP is designed to infuse accountability for performance into City services at every level of the organization. In addition, the CMP improves communication within the City and to the residents of the City, it instills accountability into our actions and supports data-based decision making.

Being strategic and proactive in its approach to governance is integral to achieving the City's goals. The CMP is intended to ensure that the City creates and adheres to its goals and priorities. The use of strategic planning enables the City to map its goals and manage the tools and resources necessary for achieving them. The strategic planning process takes a top-down approach beginning with the formulation of the City Strategic Plan at the citywide level and subsequent development of tactical plans at the department level.

Conclusion

The Fiscal Year 2011 Proposed Budget for the City totals \$2.85 billion, with \$1.09 billion budgeted in the General Fund. A total of 340.95 net FTE positions has been removed from the City's Fiscal Year 2011 Proposed Budget. This decrease is mainly due to the elimination of 523.79 FTE positions from the budget as a result of the Fiscal Year 2010 Revised Budget and Fiscal Year 2011 General Fund Budget approved by City Council in December 2009. In addition, 189.98 FTE positions were added due to the conversion of hourly and temporary wage expenses to full-time equivalent positions. This Revised Fiscal Year 2011 Proposed Budget incorporates the fiscal policies and initiatives outlined in the Mayor's updated Five-Year Financial Outlook which was released in October 2009 and carries forward budget solutions adopted by City Council in December 2009. The Revised Fiscal Year 2011 Proposed Budget also solves the additional projected shortfall of \$28.0 million identified after the December budget actions that resulted from the continued decline in General Fund revenues, slow

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economic recovery, and the higher than expected payment for the City's annual pension contribution.